

Prospects for market diversification in SADC for selected South African agricultural and food products

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Declaration

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Abstract

This research provides South Africa's producers and exporters with information on new market opportunities for South Africa's selected agricultural and food products in the Southern African Development Community (SADC). There is increasing global competition and countries in Africa are increasingly targeted as export markets due to its population growth and its increasing per capita income. Both developed countries and developing countries such as the United States of America, China, Brazil, India, etc. are gradually increasing their exports to Africa. In Sub-Saharan Africa, this is also taking place in SADC. In this region, there has been a significant increase in total imports from the mentioned countries from 2001 to 2013. The International Trade Centre market selection method was used for product selection (using the Export Potential Index) and country selection (using the Market Attractiveness Index). Fourteen products were selected and Angola is the most attractive market in the region (SADC) and is ranked first in the Market Attractiveness Index for seven of the fourteen selected products. The top ranking markets for the 14 selected products were identified as: Mauritius for maize, sweetened milk powder, raw cane sugar and wheat or meslin flour; Angola for fresh apples, fresh or dried oranges, sparkling wine, bulk wine, refined cane or beet sugar, frozen bovine cuts, and frozen bovine carcasses and half carcasses; Mozambique for bottled wine; and Zambia for fresh grapes and soya beans. In most cases the countries with the second and third highest rankings in the Market Attractiveness Index also offer opportunities for market diversification. South Africa exports certain products to non-African countries, whereas these non-African countries export the same products to SADC. There are therefore opportunities geographically nearer to South Africa, because South Africa could export these products to SADC. Exporters should not necessarily abandon non-African markets in order to export to SADC; however they should be aware of opportunities close by and develop strategies to maximize profit and maintain sustainable markets.

Opsomming

Hierdie navorsing bied aan Suid-Afrika se produsente en uitvoerders inligting oor nuwe markgeleenthede vir Suid-Afrika se geselekteerde landbou-en voedselprodukte in die Suider Afrikaanse Ontwikkelingsgemeenskap (SAOG). Daar is toenemende globale mededinging en lande in Afrika word toenemend geteiken as uitvoermarkte as gevolg van bevolkingsgroei en die stygende per capita inkomste. Beide ontwikkelde en ontwikkelende lande soos die Verenigde State van Amerika, China, Brasilië, Indië, ens. verhoog geleidelik hulle uitvoere na Afrika. In Sub-Sahara Afrika, gebeur dit ook in SAOG. In hierdie streek, was daar 'n betekenisvolle toename in invoere vanaf die genoemde lande van 2001 tot 2013. Die Internasionale Handelsentrum markseleksie metode is gebruik om produkte te kies (met die Uitvoer Potensiaal Indeks) en om lande te kies (met die Mark Aantreklikheidsindeks). Veertien produkte is gekies en Angola is die mees aantreklike mark in die streek (SAOG) en is bo-aan die lys in die Mark Aantreklikheidsindeks vir sewe van die veertien geselekteerde produkte. Die top markte vir die 14 geselekteerde produkte is geïdentifiseer as: Mauritius vir mielies, versoete melkpoeier, ruwe rietsuiker en mengkoringmeelblom; Angola vir vars appels, vars of gedroogde lemoene, vonkelwyn, grootmaat wyn, verwerkte riet- of beetsuiker, bevrore beessnitte, en bevrore bees karkasse en half karkasse; Mosambiek vir gebottelde wyn; en Zambië vir vars druiwe en vir sojabone. In meeste gevalle bied lande met die tweede en derde hoogste punte in die Mark Aantreklikheidsindeks ook geleenthede vir markdiversifikasie. Suid-Afrika voer sekere produkte uit na nie-Afrika lande, terwyl hierdie nie-Afrika lande weer dieselfde produkte na die SAOG uitvoer. Daar is dus geleenthede geografiese nader aan Suid-Afrika, want Suid-Afrika kan hierdie produkte na die SAOG uitvoer. Uitvoerders moet nie noodwendig oorsese markte laat vaar om na die SAOG uit te voer nie, maar hulle moet bewus wees van nader geleenthede en strategieë ontwikkel om wins te maksimeer en volhoubare markte te handhaaf.

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Abbreviations

ACP: African Caribbean and Pacific

AGOA: African Growth and Opportunity Act

AoA: Agreements on Agriculture

CAC: Codex Alimentarius Commission

COMESA: Common Market for Eastern and Southern Africa

EU-SADC FTA: European Union and Southern African Development Community Free Trade Agreement

FAO: Food and Agriculture Organisation

FMCGs: Fast-moving Consumer Goods

GATT: General Agreement on Tariffs and Trade

GSP: General System of Preferences

HS: Harmonised System

IMF: International Monetary Fund

IBSA: India, Brazil and South Africa

IOR-ARC: India Ocean Rims Association for Regional Cooperation

IPPC: International Plant Protection Convention

ITC: International Trade Centre

MAI: Market Attractiveness Index

Mercosur: Mercado Común del Cono Sur (i.e. Southern Cone Common Market)

MFN: Most Favoured Nations

NCSPSM: National Committee on Sanitary Phyto-Sanitary Measures

NTB: Non-tariff Barriers

OIE: Office International des Epizooties (World Organisation for Animal Health)

PPP: Purchasing Power Parity

PTA: Preferential Trade Agreement

SADC: Southern African Development Community

SACU: Southern African Customs Union

SPS: Sanitary Phyto-Sanitary

RTAs: Regional Trade Agreements

REC: Regional Economic Community

UDEAC: Union Douanière et Économique de l'Afrique Centrale (Customs and Economic Union of Central Africa)

UNCOMTRADE: United Nations Commodity Trade Statistics

WTO: World Trade Organization

Chapter 1: Introduction

1.1 Background

International trade has become very influential and affects people all around the world differently according to the size of player in a given market and on diverse aspects. Since the end of World War II in 1945, international trade or/and business has become an imperative aspect of economic life. Companies have experienced fast growth and have started operating on a global scene. Interdependence of countries has increased in such a way that events in one country have an impact in other countries, so nearly every business and inhabitant is affected directly or indirectly by international trade (Burrow, Everard & Kleindl, 2007). Thus, focusing on how to effectively increase and penetrate the global market is of non-negligible importance, because it is one of the determinants of the wellbeing of people in a country. South Africa has also been integrated in the world market. Vink, Tregurtha and Kirsten (2002) indicated that exports of South Africa's traditional products to SADC such as fruit and wine have tripled since 1994. Other competitors have also increased their exports values to the region. South Africa has experienced a growth rate of 3.1 percent per year from 1994 to 2004; nearly all sectors of the economy became more open, more productive and led to an increase in exports and imports as a result of economic incentives (Flatters & Stern, 2007).

In South Africa, trade liberalisation, the deregulation of markets and the dismantling of international trade sanctions have led to substantial restructuring of the economy. South Africa, like other developing countries (such as Brazil, China etc.) that have succeeded in integrating in the global economy through trade and investment, has in most cases grown faster than the richer countries.

South Africa's share in world exports is not negligible, yet there still remains room for growth. For instance, in terms of exports of fresh foods, South Africa occupied the 16th place in 2006 compared with 181 competing countries. In 2006 South Africa occupied the 35th place in the world regarding the value of net exports. This is an indication of high specialisation for the exports of fresh foods. The annual exports growth trend during the period 2002-2006 was estimated at 10% and it ranked 109th in the world (Magagane, Muronga, Verster & Steenkamp, 2008).

One of the most important benefits is improving the wellbeing of the citizens of the exporting country mainly by decreasing the unemployment rate, by improving income of employees, and it could alleviate poverty in South Africa as in other countries. For instance, in South Africa, growth in the labour-intensive fruit and wine industries increased rapidly after the period 1994. This was partly due to increase of fruit and wine exports. Meijerink and Roza (2007) argue that the contribution of growth in the agricultural sector to poverty reduction is greater than the contribution of growth in other economic sectors. South Africa as a developing country is also concerned about poverty reduction. Most observers today agree that the agricultural sector contributes to economic growth, but economic growth reduced the contribution of agriculture in GDP. The share of agriculture to contribute to GDP has been declining over the years as predicted by the theories of agricultural led growth. It appears that as agriculture becomes more successful, its importance decreases in the economy.

The study by Magagane et al. (2008) takes into consideration a large range of agricultural products and they examined products that require more support in terms of resources in response to their findings. The support here should correspond to new markets or potential demand in certain countries that have been considered with appropriated criteria. They measured a very large number of selected countries all over the world with all the chosen agricultural products.

Although South Africa has increased its exports over the years and experienced economic growth as mentioned above, its economic growth performance has been less than expected to meet the economic development goals (Flatters & Stern, 2007). The purpose was to meet at least a growing export rate of 6% yearly (Engineering News, 2012). Nevertheless, South Africa has experienced a growth rate of 3.1 percent per year from 1994 to 2004 nearly in all sectors of the economy.

1.2 Problem Statement

Competition in world agricultural products and food is increasingly shaping global exports and the world market in such a way that developed and developing countries such as the USA, China, India, Brazil, etc. are becoming very important in the international market of agricultural and food products. The mentioned phenomenon also arises with increasing population growth and growth in income per capita, especially in African countries. Both population growth and increasing income per capita tend to increase the demand of agricultural and food products.

The global market is subject to different factors, different environments and agreements. The knowledge of different environments such as the political environment, economic environment (e.g. market structure, GDP per capita, etc.) social and cultural environment of a specific country may help maintain and/or increase exports to that specific country. Other aspects such as infrastructure, exporters of the same products or commodities, etc. should also be taken into consideration. Hence, further evaluation of target markets, diversification, increasing quantity and improving quality, and creating bilateral trade agreements between countries that offer opportunities for new or greater market, can bring positive changes for South Africa's exports in the sector of choice. This will also facilitate South Africa to keep up with the increasing competition in the world market.

South Africa as a SADC protocol signatory and also having a regional proximity advantage versus its main competitors should be the first to perceive new opportunities for exports to SADC countries and South Africa should develop strategies to seize these opportunities before its main competitors in other developed and developing countries. When a partner exporting country is located near an importing country, it could possibly spend less on transportation cost than its competitors located at distant places. Beside this, Africa is increasingly targeted by exporters because of its population growth and its increasing income per capita, especially in the sub-Saharan Africa region, of which SADC is part. Exporting elsewhere in the world may be important and profitable, yet getting to know market opportunities in SADC, of which South Africa is one of the signatories, may increase lucrative alternatives for South Africa.

1.3 Objective

The objective of this study is to screen SADC member country (i.e. Angola, Botswana, Democratic Republic of Congo, Lesotho, Madagascar, Malawi, Mauritius, Mozambique, Namibia, Seychelles, Swaziland, Tanzania, Zambia, and Zimbabwe) for chosen products in order to provide South African producers, processors and exporters with market profiles within SADC countries, so that potential markets for the chosen products may be targeted.

A secondary objective is to provide sufficient information on target markets to enable exporters to better orientate their export destinations and this is not limited to the selected products only. Screening the market in SADC member country may broaden the scale of market choice which depends on different factors such as regulations, tariffs and non-tariff barriers, etc.

1.4 Methodology

The literature study which will be discussed in chapter 2 has indicated the International Trade Centre (ITC) multiple criteria method as the method of choice, therefore to screen the market, the ITC multiple criteria method was used. For this reason Market Attractiveness Index (MAI) was computed for each chosen product for market selection. Once the market was identified, its characteristics were discussed. The selected market or target country for a specific product is the market that ranks first in the MAI for that product. For this reason, one country may be selected for more than one of the chosen products. The method steps are the following:

- ✚ The first thing to do is to select the products that one needs to screen the market for. Here products were selected using the computed Export Potential Index (EPI) at six digit HS (Harmonised System) code because the margin of a country's preferential tariff advantage over its main competitors in the market for the selected products will be incorporated.

- ✚ When products have been selected using the constructed Export Potential Index, one needs to use the same selected products to identify the attractive markets in SADC according to the chosen ITC multiple criteria method by computing the Market Attractiveness Index for one product at a time. One should bear in mind that the ITC multiple criteria method of market selection uses imports' data.

For more details on methodology, see the theory of the ITC Indices in section 2.2.

1.5 Thesis outline

The importance of trade and background is discussed in chapter 1. This chapter also gives reasons why South Africa should be the first country to perceive and use opportunities in Africa in general and in SADC in particular. Chapter 2 compares different market selection methods, identifying their weaknesses and their strengths. This chapter highlights the choice of the market selection method for use in this study. Chapter 3 discusses the results of the ITC multiple criteria method of product and market selection. Products are selected and combined with their respective market according to the Market Attractiveness Index. Chapter 4 discusses the target markets' characteristics through a country profile and a trade profile. It highlights different environments in the markets, South Africa's main competitors for the selected products and different characteristics related to trade such as whether South

Africa faces tariff advantage or disadvantage, its market share, South Africa's main competitors in the market and the Global Competitiveness Index for South Africa's main competitors. Chapter 5 presents the summary, conclusions and recommendations.

Chapter 2: Overview of export market selection methods and existing trade related studies for South Africa

There are different methods of market selection and each method has its advantages and its disadvantages. Thus the choice of a method depends on criteria such as the number of country-product combinations, data availability etc. Steenkamp, Rossouw, Viviers and Cuyvers (2009) studied different methods of market selection and indicated the differences and the similarities of these methods. Differences in the methods make it somehow difficult to come up with a consensus as to what an ideal selection model may look like (Papadopoulos & Martin, 2011). There are two different levels of market research: the firm level market estimation methods and the country level market estimation methods. The focus here is on country level market estimation methods because the aim is to identify prospects for market diversification in SADC.

2.1 Overview of export market selection methods

2.1.1 The Papadopoulos, Chen and Thomas trade-off model

Market selection methods all aim at finding market opportunities and at evaluating potential foreign markets. Rahman (2003) mentioned that the whole process of market selection can be summarised in three steps: screening, identification and selection.

Papadopoulos, Chen and Thomas (2002) emphasise the fact that trade mainly depends on trade barriers and that they are the most restraining export practices. There are quantitative and qualitative trade barriers. The argument of not using all trade barriers in market selection methods is based on the difficulty of quantifying barriers (non-tariff barriers) related to quality such as trade agreements and sanitary and phyto-sanitary measures (SPS). They also emphasised the fact that this kind of research is limited by the deficiency of secondary data related to the trade coding system. The model suggests that there is a trade-off between the demand side and trade barriers. If trade barriers were to increase, the opportunity cost of purchasing imported goods will increase and people will purchase less imported goods, because trade barriers will tend to push up the price of imported goods. The reverse phenomenon will arise when trade barriers are alleviated, prices will be pushed down and people will buy more of the imported good, therefore increasing the demand of foreign goods. The chosen demand variables are (Steenkamp, et al., 2009):

- Apparent consumption: import data only do not capture the total available market, according to this method of market selection, domestic consumption and exports of the product should be included.
- Import penetration: this variable is used in industry-specific analyses. A high ratio shows import openness and low domestic producer competitiveness, showing or signalling an attractive market.
- Origin advantage: a high overall share indicates that the importing country has the benefits of important mass, good image in the market and strong trade relation in the importing and exporting countries.
- Market similarity: here demand tends to be higher in the market, similar to the market in which the product was developed first. To find if there is similarity in different countries they take into consideration the life expectancies, GNP per capita, production, transportation and imports to GDP ratio of the countries.

The chosen trade barriers variables are:

- Tariff barriers: tariffs have a direct effect on the exporter's prices and pricing strategy discretion.
- Non-tariff barriers: non-tariff barriers are in most of the cases the more important obstacle to exports compared to tariff barriers.
- Geographic distance: distance is directly related to transport costs and affects export price.
- Exchange rate: unstable exchange rate between the exporting countries is a major risk element in exporting and may have an important influence on pricing and strategy.

The choice of the variables above was made based on their relevance, their use in past research, pertinence of satisfactory performances, and the availability of data, reliability, comparability and facility to express qualitative factors if necessary. The measures used in this selection method are summarised in table 1. This selection method also emphasises the exporting country characteristics, taking into account aspects of production and country similarities with the partner. This method shows that there is a trade-off between the variables mentioned above at a single change in the quantity or in the quality in a given time of business; hence leading to a subsequent strategy that may occur in the quantity change, in quality or in legal agreements with the partner country in order to maintain or increase market share in the target market.

Table 1: Summary of variables' measures for trade-off model

| Demand Potential | Trade barriers |
|--|--|
| Apparent consumption = domestic production plus imports minus exports | Tariff barriers = Weighted mean annual tariff rate over study period |
| Import penetration = Import as % of apparent consumption | Non-tariff barriers = Composite Quantitative Index of 20 barrier items |
| Origin Advantage = Exporting country's share in target market's total imports | Geographical distances = Mileage distance between exporting and target countries |
| Market similarities = Overall score of four variables: health and education, personal consumption, production and transportation and trade | Exchange rate = Percent change in official exchange rate vs. previous year |

Source: Steenkamp et al. (2009)

Koch (2001) made use of Papadopoulos and Denis (1988) model for target market selection and penetration. He proceeded from the fact that to penetrate a market, one needs to make decision on: country-product combination, the objective and the goals in the target market, the choice on how to enter the market, the marketing plan to enter the market and monitoring performance in the target market. Koch (2001) studied the mutual relationship between the choice of a target market and the choice of an entry mode to penetrate the market. His results showed that overseas market selection and market entry selection should be considered as the same part of decision process, the market and entry mode selection model is influenced by a bigger variety of internal and external environment factors than what are usually known by theory.

In the Papadopoulos, Chen and Thomas trade-off model, each country's scores for each chosen variable are averaged to obtain a total score for all demand potential in their respective chosen target market countries. By subtracting the lowest country value from the highest and dividing the difference by 10, they scaled the data for each variable. Hence a high score would represent high demand potential and low trade barriers. Thus to classify different target markets as a result of the model, four different levels of feasibility can be drawn (Steenkamp, et al., 2009):

- High demand potential and high trade barriers
- High demand potential and low trade barriers
- Low demand potential and high trade barriers
- Low demand potential and low trade barriers.

This model has a number of limitations, which include deficiencies of secondary data, the lack of direct conversion schemes between the trade coding systems, unavailability, unreliability and aging of data, as well as the lack of greater product-specificity from some countries. An advantage of this method is that it captures total demand (meaning apparent consumption), and not import demand only. This model may be used when a limited number of countries have been identified and the focus is on a number of specific chosen products (Steenkamp, et al., 2009). For a large number of countries and product combinations, this method is not ideal because of its limitations.

2.1.2 Cuyvers decision support model

Steenkamp (2011) used the decision support model to identify international export opportunities for South African products with a special focus on Africa. All products were included in the analysis. Similarly, Cuyvers (1997) used the decision support model to research export opportunities of Thailand products because Thailand was facing a remarkable fall in its exports. He considered all Thailand trade negotiations and the World Trade Organization agreements and other trade regulations. Without distinguishing between product sectors, he included all Thailand's products at the 4 digit level of the Harmonized System.

This method has an advantage of evaluating a large number of country-product combinations to identify opportunities. The fact that all products were included makes it difficult to really identify opportunities for a limited sector such as agricultural products only. Trade may be dominated by non-agricultural products such as machinery, fuel and automobiles. The assumption that all markets hold export opportunities for a particular country is the fundamental part of the decision support model. It includes all countries and all products without any prior preferences of sector or region. This model makes use of four filters, when a previous filter has been used; a number of opportunities are made non-operational, therefore not considered in the following filters.

Filter one takes into consideration macro environments in the target market being investigated. Political and commercial risks are included for selection bias in this filter. In this selection step, target countries that show too high political or economic uncertainty and do not have sufficient macroeconomic standards, are removed from the list.

Filter two focuses on the demand potential of country-product combinations. Countries that do not show sufficient demand potential are eliminated. The growth rates of imports and the

value of imports for a given country are assessed to eliminate those country-product combinations that do not satisfy the filter.

Filter three takes into account trade barriers and other restrictions to trade. The degree of market concentration (to assess competition), and market access conditions are used as selection criteria in this filter.

In filter four, export opportunities for country-product combinations are prioritised according to the importance of the market and relative market size and growth rate. This method might provide leaders with ideas of where to allocate scarce resources because it takes into consideration all countries around the world and all products within the exporting country based on the assumption mentioned above (Steenkamp, et al., 2009).

2.1.3 Green and Allaway's shift-share model

This method requires import data of the product of the country being investigated. The focus here is on the market share over time, thus shift-share analysis identifies growth differentials created from the changes that happens in market shares over time. Then an expected growth is computed for each country-product combination that arises from the average for all combinations taken into account in the analysis. The difference between each market's actual growth and expected growth is the net shift. If positive, then market share is gained, if negative, then market share is lost. To compute the percentage of net shift, the net shift of each market under investigation is divided by a total net shift of all markets in the analysis and multiplied by 100.

This model shows some shortcomings in its application, which include: the time frame of the analysis is based upon two points in time only and identifies relatively few opportunities; the application of this model biases the results depending upon the base year and upon the outliers; and the model is limited to import measures only. Yet the model offers an advantage of being simple and industry specific. To sum up, the shift-share model, based on the shortcoming mentioned above, lacks predictive power and it was rejected based on the high correlation between the results and those that are obtained from the simple growth model (Steenkamp, et al., 2009).

2.1.4 Russuw and Okoroafo's global screening model

This method takes into consideration three main criteria, these criteria include: product-specific market size and growth, factors of production and economic development. Market

size and growth is measured by including domestic production, imports, exports, the shift-share of domestic production, the shift-share of imports and the shift-share of exports of a product. To calculate the cost and availability of factors of production, they include: gross fixed capital formation, money supply, total internal reserves, total population, unemployment rate, an average hourly wage in manufacturing, country area and population density. To measure economic development, they include GDP, GDP per capita, and the respective GDP contribution shares of agriculture, manufacturing, construction, wholesale and retail sales, as well as transportation and communication (Steenkamp, et al., 2009).

This method performs a principle component analysis for each product separately. So if there are a large number of products, it would be very extensive and time consuming to reach objectives. Finding data for country-product combinations together with factors of domestic production could be very cumbersome. Yet the method can be used when a small number of products are chosen.

2.1.5 Assessment of export opportunities in emerging markets

The focus of this method is on the dynamism (i.e. on growth compared with the average growth in the sector of interest) and future potential of emerging markets. The main argument for this method is that traditional market selection analysis failed to take into consideration the dynamism and the future potential of the market.

For practical purpose, a foreign market assessment framework was proposed. This assessment includes: the assessment of long market potential in which they use population and GDP within a country, the identification of business prospects and the predicting of potential profit nation-wide (this includes the assessment of population density in urban centres and in the rural areas and villages, the distribution of wealth, telecommunication infrastructure, penetration of durables such as telephones, televisions, cars, etc.) (Steenkamp et al., 2009).

Sakarya, Eckman and Hyllegard (2007) used the emerging market selection method to assess opportunities for United States apparel retailers in emerging markets, focusing on Turkey. They used Arnold and Quelch's (1998) formula:

$$Q = (P + NP) * (DevGDP - AdjGDP)$$

Where

Q = total market potential

P = national population

NP = new population, i.e., population growth in planning period

DevGDP = average per capita GDP in developed markets

AdjGDP = GDP in emerging market adjusted to purchasing power parity (PPP) level

He also took into account the average per capita GDP in developed G8 countries omitting Russia. He found that Turkey's long-term market potential demonstrated impressive future market potential for the emerging market. He found that total market potential (i.e. from 2010 to 2020) is great in China and India followed by Indonesia, Brazil, Mexico and Turkey. Furthermore he indicated that Mexico, Brazil and Turkey have higher GDPs and their consumers proved to have greater purchasing power than those in China, India and Indonesia.

This model uses only macro-level variables to assess market potential and subsequently concentrates on firm level assessment, which are said to be mostly situation specific, qualitative and not suitable to compute a large number of country-product combinations.

2.1.6 International Trade Centre (ITC) multiple criteria method

The International Trade Centre (ITC) has developed a method to assist developing countries to help themselves diversify their export products in order to facilitate capturing the export opportunities as well as using those opportunities for their future growth (ITC, 2012). The ITC method is a multiple criteria method that reviews the export potential of a country's products and identifies different levels of potential for the product from the exporting country in different target markets.

The ITC uses different variables to assess the export potential of a country's products, including, amongst other: exports of products in value, the world market share, growth rate of the exports of specific products, trade balance and net exports to the world (Steenkamp, et al., 2009). The ITC also considers the domestic supply capacity for a country to see whether the exporter is capable of satisfying the demand in the target market. The ITC emphasises the characteristics of the target market, for example the size of the demand, the growth of the world demand, as well as the exporting country's conditions of market access to the partner country.

In order to facilitate comparison of different products, all values are standardized by giving them a score from zero (0) to one hundred (100) in order to create an index. Comparison is

made easier when it is done between apples and apples instead of apples and pineapples, because comparing trade balance and growth rate would be cumbersome. An index score nearer to 0 indicates a weak performance, and on the contrary a score nearer to 100 indicates a strong performance.

The ITC multiple criteria method would be time consuming when applying it for all possible country-product combinations in the world. On the contrary, when a limited number of country-product combinations are short-listed, the ITC method would be well-matched to address these calculations (Steenkamp, et al., 2009). In addition, the provision of the ITC analysis tools makes it easy to obtain useful information such as standards applying to certification of a chosen product for a specific country by going to Standards Map and searching for the product and the country (Hagen, 2011).

The ITC multiple criteria method is best suited when there is a limited number of countries and a well-known limited number of selected products. In this study there are few countries that are taken into consideration for market selection (i.e. SADC member countries) and only a limited number of products are selected for which to determine the main target market. So the ITC multiple criteria method is the best method for this market research and it is used here. In addition the ITC provides analysis tools that are user-friendly for data collection. That is why this method is chosen. Despite the fact that there are other methods (e.g. the Papadopoulos et al. trade off model and the Russuw and Okoroafo's global screening model) that can help analyse short-listed countries and products, the ITC method provides more facilities than these ones and its tools are user friendly. Therefore the ITC theory is discussed in more detail in the next section.

2.2 Theory of the International Trade Centre (ITC) Indices

2.2.1 Indices for product selection

To help select products, the ITC developed a composite index called the Export Potential Index. A composite index is a grouping of indices and/or factors standardized and combined to provide useful statistical measures of general market and/or sector performance. This method takes into consideration variables related to the exporting country's exports (Export Performances Index) and variables related to the world imports (World Import Performance Index). All selected variables are worked out and standardized in order to make comparison possible in terms of indices. The Export Potential Index is constructed in order to capture the

product's real position and advantages. All values are kept, i.e. all outliers are taken into consideration, so that all chosen sectors are included.

The computation of a composite index aims at obtaining indices; hence the formula used to standardize variables is (ITC, 2012):

$$\text{Standardized value} = 100 * \left(\frac{\text{Value (v)} - \text{Lower threshold}}{\text{Upper threshold} - \text{Lower threshold}} \right)$$

Index values vary between 0 and 100. The ITC method of standardizing does not exclude outliers (i.e. values that are very big or very small in comparison with others in the observation). To avoid bias, 5% of all observations located at the lowest extremity (lower thresholds) and at the highest extremity (higher thresholds) are assigned an index value of 0 and 100 respectively. The standardized variables are then weighted to determine the importance of each index. The weight is given in terms of percentage; therefore the sum of the assigned weights must be equal to 1.

2.2.1.1 Export Performance Index

In the case of the Export Performance Index, all variables are given an equal weight. The Export Performance Index is a composite index that combines the following four indices. The variable on which each index is based and the relevant year(s) for this study are also indicated:

- Export Index: export value (2011);
- Growth Index: export growth (2007-2011);
- Market Share Index: world market share (2011);
- Trade Balance Index: relative trade balance (2011).

To compute the Export Index, the formula below is used (ITC, 2012):

$$\text{Export Index} = \text{if (export value} \geq \text{upper threshold, 100, if (the export value} \leq \text{lower threshold, 0, } 100 * (\text{export value} - \text{upper threshold}) / (\text{upper threshold} - \text{lower threshold}))$$

- If export value \geq upper threshold, 100: if the export value is equal to or larger than the upper threshold, then the index is 100.
- If the export value \leq lower threshold, 0: if the export value is less than the lower threshold then the index is 0.

- $100 * (\text{export value} - \text{upper threshold}) / (\text{upper threshold} - \text{lower threshold})$: if the export value does not meet the two conditions, then the index is calculated using the export value in the observation, multiplied by 100.

Figure 1 illustrates the construction diagram of the Export Index. All indices' calculations that are needed to compute the Export Performance Index (i.e. the Export Index, Trade Balance Index, Growth Index and the Market Share Index) follow the same construction diagram with their respective variables.

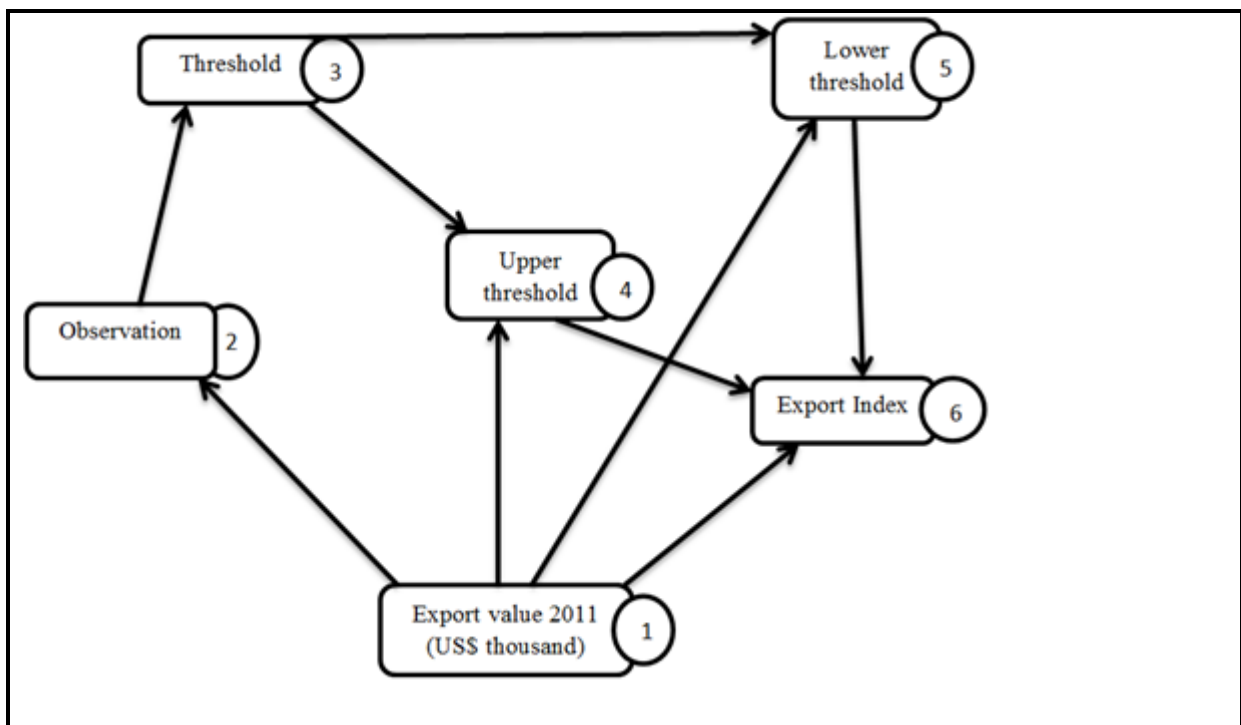


Figure 1: Construction diagram of the Export Performance Index

Source: Own illustration based on the steps in the matrix construction

The Growth Index, Market Share Index and Trade Balance Index are calculated by using similar formulae.

One more important aspect is to assign weights to the indices. In this case each of the four indices was assigned an equal weight of 0.25. The Export Performance Index can be calculated as the sum of standardized values multiplied by their respective weights.

$$\text{Export Performance Index} = (\text{Export Index} * 0.25 + \text{Trade Balance Index} * 0.25 + \text{Growth Index} * 0.25 + \text{Market Share Index} * 0.25)$$

2.2.1.2 World Import Performance Index

The calculation of the World Import Performance Index is similar to the one for the Export Performance Index. The differences are based on the chosen variables and different weights that are assigned. The World Import Performance Index is a composite index that combines the following five indices. The variable on which each index is based, is also indicated:

- Import Index: world import value (2011);
- Import Change Index: absolute change in world imports (2007-2011);
- Import Growth Index: growth of world imports for the product (2007-2011), which allows to reduce the likelihood of a false high score for example for those sectors growing faster but at very small base;
- Dynamism Index: growth of world imports of the product minus the growth of world imports of all products in the observation (i.e. all collected data on world imports) including the sector not exported by South Africa. This is done to see sectors that are growing faster than the average growth of all observed sectors (2007-2011);
- Market Access Index for product selection: tariff applied by importers; tariff margin faced by exporting countries vis-à-vis competitors in all markets (2011).

The size indices (Import Index, Import Change Index and Import Growth Index) are given a combined weight of 0.5 (or 50%) the Dynamism Index and the Market Access Index are each given a weight of 0.25 (25%). The formula to calculate the Import Index is as follows (ITC, 2012):

World Import Performance Index = if (world import value \geq upper threshold, 100, if (world import value \leq lower threshold, 0, $100 \times (\text{world import value} - \text{upper threshold}) / (\text{upper threshold} - \text{lower threshold})$)).

The Import Change Index, Import Growth Index, Dynamism Index and Market Access Index are computed using similar formulae and this is similar to what was shown in the formula above and in figure 1.

2.2.1.3 Export Potential Index

The Export Potential Index is simply the average of the Export Performance Index and the World Import Performance Index. The Export Performance Index, the World Import

Performance Index and the Export Potential Index are ranked in descending order to see each product's position.

$$\text{Export Potential Index} = \frac{(\text{Export Performance Index} + \text{Import Performance Index})}{2}$$

Table 2 illustrates an example of the Export Potential Index of the top agricultural and food products that appear in the matrix. One can notice that a product can be ranked differently in the matrix. *Maize* (HS 100590) for example appears first in the Export Potential Index with the index of 86.863. *Maize* is the third product in South Africa's Export Performance Index with a value of 92.86; however, it is the eighth in the World Import Performance Index with the index of 80.87. *Maize* (HS 100590) is one of the most demanded products in the world market and it is also among the most South Africa's exported agricultural and food products. For *fresh grapes* (HS 080610), South Africa is better on exports but the world demand is not so high. On the contrary, for *raw cane sugar* (HS 170111) and for *soya beans* (HS 120100) the world demand is very high but South Africa is not doing so well in exports.

Table 2: Example of Export Potential Index

| HS code | Product label | Export Performance Index | Rank: Export Performance Index | World Import Performance Index | Rank World Import Performance Index | Export Potential Index | Rank Export Potential Index |
|---------|---|--------------------------|--------------------------------|--------------------------------|-------------------------------------|------------------------|-----------------------------|
| 100590 | Maize (corn) nes | 92.857 | 3 | 80.868 | 8 | 86.863 | 1 |
| 080610 | Grapes, fresh | 83.741 | 11 | 65.297 | 43 | 74.519 | 2 |
| 170199 | Refined sugar, in solid from, nes | 63.029 | 44 | 83.513 | 3 | 73.270 | 3 |
| 170111 | Raw sugar, cane | 60.564 | 49 | 85.358 | 1 | 72.961 | 4 |
| 080810 | Fresh apples | 83.216 | 13 | 61.058 | 47 | 72.137 | 5 |
| 120100 | Soya beans | 57.495 | 55 | 84.821 | 2 | 71.158 | 6 |
| 220421 | Grape wines nes, incl fort&grape must, unfermnt by add alc in ctrn, wine in containers <=2l | 71.818 | 31 | 70.031 | 32 | 70.924 | 7 |

Source: Own calculations based on Trade Map data

Figure 2 illustrates the construction diagram of the Export Potential Index. It shows the relationship between the indices for product selection. The Export Potential Index is the average of the Export Performance Index and the World Import Performance Index. All indices' calculations that are needed to compute the Export Performance Index (i.e. the Export Index, Trade Balance Index, Growth Index and the Market Share Index) follow the same method of calculation as indicated in figure 1, with their respective variables. The Export Performance Index is the average of the individual indices mentioned above. The

same method applies to the indices needed to compute the World Import Performance Index, which include the Import Index, the Import Growth Index, the Import Change Index, the Dynamism Index and the Market Access Index.

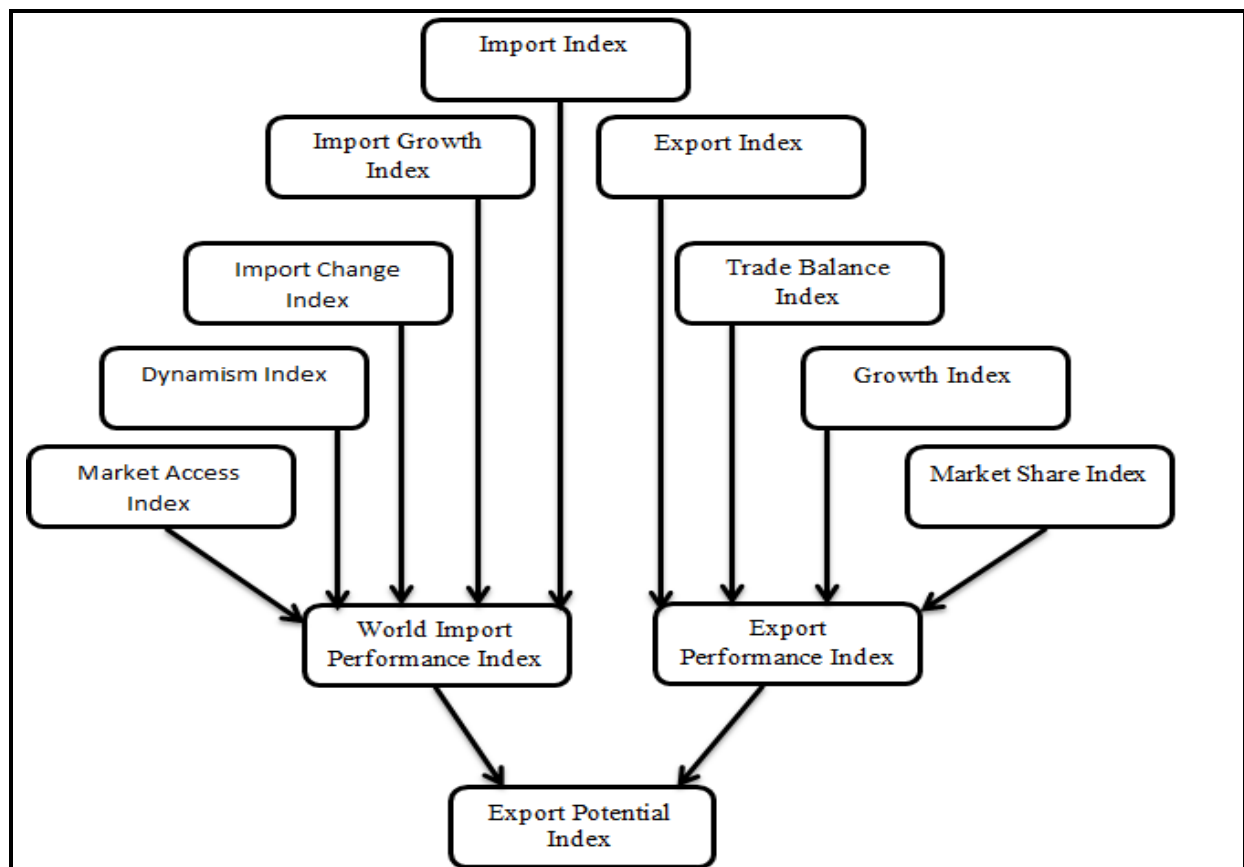


Figure 2: Construction diagram of the Export Potential Index

Source: Own illustration based on the steps in the matrix construction

2.2.2 Indices for country selection

To help select a target market, a number of market variables are taken into account. To facilitate the selection, the chosen variables are selected based on different approaches. Some constructed variables can be found on the Trade Map website by selecting the option for ‘indicators’ instead of ‘time series’. In addition, there is a possibility of building new variables in Excel by downloading time series data from Trade Map. This is where the importance of computing the Market Attractiveness Indices (MAI) comes in. Information on tariffs and trade regimes was found in Market Access Map from www.macmap.org.

Non-Tariff Barriers (NTB's) are found in various sources but are difficult to get with accuracy, because they change overtime and each country has its own obligations for market access regarding NTBs and sanitary and phyto-sanitary (SPS) measures. Getting to know the

NTB and the SPS measure is important because they may constitute a barrier to trade or market access, but in their claimed original purposes they are not barriers to trade or to market access. Usually, NTB and SPS measures are technical and qualitative. They are not taken into account in the MAI for country or target market selection.

The computation of a Market Attractiveness Index aims at assisting in the selection of export markets. A Market Attractiveness Index is a useful tool to help companies or businessmen to identify market opportunities that can be of interest to their export products. It identifies a number of possible markets for a product by selecting those that have a combination of interesting characteristics such as size and growth. The MAI is a composite index consisting of the Country Demand Index and the Market Access Index respectively. These two indices consist of five other indices (as shown in figure 2). Each of these indices will be discussed in more detail.

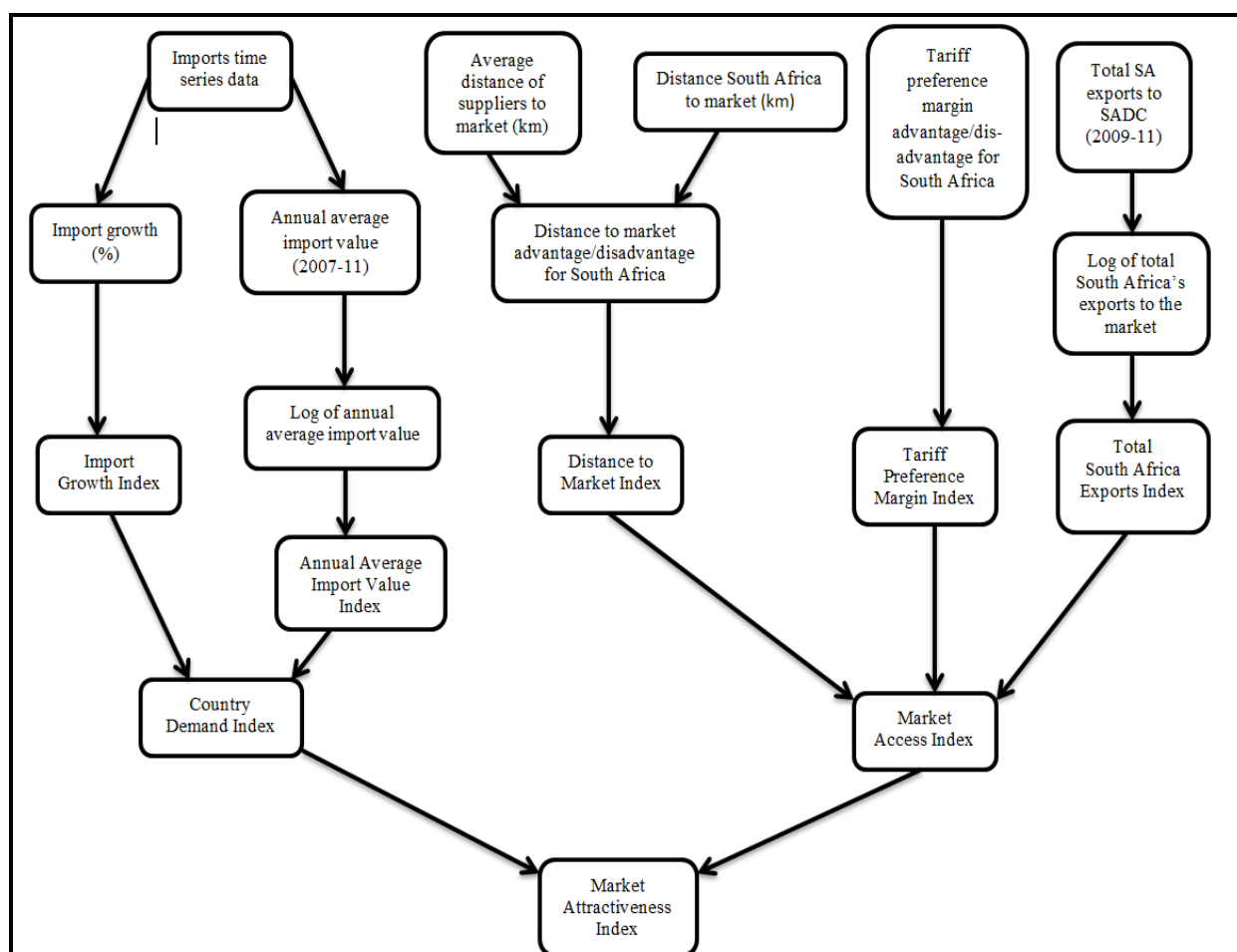


Figure 3: Construction diagram of the Market Attractiveness Index

Source: Own illustration based on the steps in the matrix construction

2.2.2.1 Distance to Market Index

The variables needed for the Distance to Market Index calculation are: the average distance of suppliers to market (km) and the bilateral distance of the country (i.e. South Africa) to market (km). To compute the Distance to Market Index, one needs the distance to market advantage or disadvantage, i.e. the average distance (km) of all suppliers of the selected product to the importing country minus the bilateral distance (km) (the distance between South Africa and the importing country), which can be positive or negative. The index value is between 0 and 100; the bigger the value the better (ITC, 2012).

Distance advantage or disadvantage for South Africa = Average Distance of suppliers – Bilateral Distance

Distance to Market Index =

$$\left(\frac{\text{Distance to market advantage or disadvantage for SA} - \text{the biggest disadvantage to the market}}{(\text{the biggest advantage to the market}) - (\text{the biggest disadvantage to the market})} \right) * 100$$

2.2.2.2 Tariff Preference Margin Index

The inputs or variables for Tariff Preference Margin Index calculation are the tariff preference margin advantage/disadvantage for the country (i.e. South Africa). Hence, one needs to know the tariffs applied by markets to imported products weighted by the actual imports with the market; this is done in order to avoid bias. If the market is dominated by one exporter, it is not useful to calculate the simple average tariff applied by the market to all possible suppliers when imports of the product are not weighted. It is important to know the average tariff applied to countries supplying the market. To calculate the Tariff Preference Margin Index, the data for the tariff preference margin advantage and/or disadvantage were provided by the ITC staff pre-calculations. When South Africa faces a preferential tariff in a market that is better than the one applied to other suppliers on average, it will make the market more attractive to South Africa. The formula used is (ITC, 2012):

$$\text{TPM Index} = \left(\frac{\text{TPM } a \text{ or } d - (\text{the most } d \text{ tariff for SA})}{(\text{the most } a \text{ tariff for SA}) - (\text{the most } d \text{ tariff for SA})} \right) * 100$$

Where: TPM Index is Tariff Preference Margin Index, *a* and *d* stand for advantage and disadvantage respectively.

2.2.2.3 Total South Africa's Export Index

The variable needed to compute Total South Africa's Export Index is the total country exports to the market over the last three years (i.e. South Africa total export to SADC 2009-2011). Total exports of South Africa to the market over three years (2009-2011) are a robust proxy for different important dimensions that affect trade such as: political closeness and/or political problems between countries, language, culture, etc. To compute total South Africa's Export Index the similar formula used for TPM Index is used here. Before using the formula, one needs to transform the data into a logarithmic scale because exports can include very large or very small values.

Total South Africa Export Index =

$$\left(\frac{\text{Log of Total SA Exports to the Market} - \text{the smallest Log of Total SA Exports to the Market}}{(\text{the biggest Log of Total SA Export to the Market}) - (\text{the smallest Log of Total SA Export to the Market})} \right) * 100$$

2.2.2.4 Market Access Index

The Market Access Index for country selection (compare the Market Access Index for product selection) is a composite index. It is a simple average of Distance to Market Index, Tariff Preference Margin Index and Total South Africa's Export Index.

Market Access Index =

$$\frac{(\text{Distance to Market Index}) + (\text{Tariff Preference Margin Index}) + (\text{Total South Africa's Export Index})}{3}$$

2.2.2.5 Country Demand Index

The variables needed to compute the Country Demand Index are time series data on imports (i.e. over five years 2007-2011) of the selected product. Country Demand Index is calculated by multiplying the Import Value Index by the Import Growth Index and dividing by 100. When market size and market growth are combined, it helps avoid the situation where highly dynamic but tiny markets are over-emphasized. Growth can be very high if it is calculated from a very small base. The computation of two indices will allow selecting markets that present a combination of high value and high growth. As size is transformed to logarithmic scale, it will eliminate the smallest markets (ITC, 2012):

- **Average Annual Import Value Index** = (Log of annual average import value - the smallest value of log of annual average import value in the series)/(the maximum

value of log of annual average import value in the series- the minimum value of log of annual average import value in the series)*100.

- **Import Growth Index** is calculated the same as Average Annual Import Value Index, yet here one must use the import growth instead of the annual average import value.

$$\text{Country Demand Index} = \frac{\text{Import Value Index} * \text{Import Growth Index}}{100}$$

The product of the two indices allows for selecting markets that represent both high value and high growth. When estimating the log of the function, the selection will not be limited to very large markets only, but the smallest ones will be eliminated.

2.2.2.6 Market Attractiveness Index

It is a simple average of Market Access Index and Country Demand Index.

$$\text{Market Attractiveness Index} = \frac{(\text{Market Access Index}) + (\text{Country Demand Index})}{2}$$

Table 3 illustrates an example of indices in SADC countries' market of *sparkling wine* (HS 220410) (six digit HS code). This method gives an important number of examined possible markets with the chosen product, so that a choice may be made on the characteristics that one may be interested in or just getting to know the market in which one would want to perform and be more able and/or attracted to collect more information. Countries that appear in the table are SADC countries, but not all the countries are of interest for different products. Features of the market may include: market size, Country Demand Index, proximity, etc. For example, Angola comes first with a very high Country Demand Index of 73.66; it is followed by the DR Congo with 43.35 as Demand Index. Angola is also first in the ranking of the MAI with an index of 61.64; it is followed by Madagascar with an index of 50.39. In here the choice of the market is made based on the highest index in the column of Market Attractiveness, because the MAI is the combination of all computed indices in the matrix; hence in table 3 Angola has been selected for further investigation.

This method (Market Attractiveness Index, MAI) focuses on historical data of product export values in existing markets in which the product is sold by different competitors. The investigated country may or may not already have been targeted by the investigating country.

The Market Attractiveness Index is constructed for each chosen product, so this study will have the same number of MAIs as there are products selected.

Table 3: Market Attractiveness Index of *sparkling wine* (HS 220410) within SADC

| Importers | Market Attractiveness Index | Country Demand Index | Market Access Index | Total South Africa's Export Index | Tariff Preference Margin Index | Distance to Market Index |
|----------------------------------|-----------------------------|----------------------|---------------------|-----------------------------------|--------------------------------|--------------------------|
| Angola | 61.64 | 73.66 | 49.61 | 93.59 | 37.25 | 18.00 |
| Madagascar | 50.39 | 23.15 | 77.63 | 83.47 | 73.80 | 75.61 |
| Democratic Republic of the Congo | 50.22 | 43.35 | 57.09 | 94.30 | 37.25 | 39.72 |
| Mozambique | 46.90 | 21.99 | 71.79 | 99.71 | 86.78 | 28.89 |
| Mauritius | 45.50 | 39.59 | 51.42 | 88.14 | 0.00 | 66.12 |
| Botswana | 35.75 | 38.08 | 33.42 | 0.00 | 100.00 | 0.26 |
| Swaziland | 33.45 | 0.23 | 66.67 | 0.00 | 100.00 | 100.00 |
| Zambia | 33.19 | 0.00 | 66.37 | 99.28 | 74.23 | 25.62 |
| Seychelles | 32.61 | 15.10 | 50.10 | 76.85 | 37.25 | 36.22 |
| Zimbabwe | 30.62 | 16.16 | 45.07 | 100.00 | 34.21 | 1.01 |
| United Republic of Tanzania | 30.60 | 15.06 | 46.14 | 91.24 | 34.92 | 12.26 |
| Malawi | 24.37 | 12.64 | 36.10 | 89.86 | 18.44 | 0.00 |
| Namibia | 21.99 | 0.00 | 43.99 | 8.86 | 37.25 | 85.85 |

Source: Calculated from ITC (2012) data

2.3 Existing trade related studies for SA overview

The study by Magagane et al. (2008), which uses the ITC multiple criteria method for international market selection discussed above, aimed at showing South African export opportunities for agricultural products. It took into account the top 20 South African exported products to the world and in their respective countries and ranked them in categories of **champions** (winners in growth markets), **underachievers** (losers in growth markets), **achievers in adversity** (winners in declining markets) and **losers in declining markets**.

In descending order of value, the top 20 South African agricultural exported products in 2006 were: *wine in containers ≤ 2 litres, fresh or dried oranges, raw cane sugar, fresh grapes, fresh apples, maize, wine in containers >2 litres, greasy shorn wool, cigarettes containing tobacco, smoking tobacco, fresh or dried grapefruit, fresh pears and quinces, refined sugar in solid form, mandarins, fresh and dried lemons, peaches, food preparations, nuts edibles fresh or dried, meat and edible meat offal*. The results show that none of the first twenty South African agricultural exported products are in the champion category, but *raw beet sugar* (HS 170112) which ranked the 21st as well as *refined sugar* (HS 170191) which ranked 41st fell into the champion category.

Undenatured ethyl alcohol (HS 220710), *other refined sugar* (HS 171099) as well as *edible nuts* (HS 080290) represented industries with fast growing world demand but lack of market penetration by South Africa's exporters, yet undenatured ethyl alcohol was growing positively and had an annual increase of 22% from 2002 to 2006.

The majority of South African agricultural products fell in the category of achievers in adversity. The developing countries have comparative advantages to produce, but because of the lack of market access, they cannot penetrate the international market. A number of products gained market shares and exceeded the average total export growth of South Africa. They include amongst other *mandarins* (HS 080520) and *smoking tobacco* (HS 240310). Some other products achieved growth below South Africa's average export growth. They include amongst other *oranges* (HS 080510) and *grape fruit* (HS 080540). Losers in the declining markets were *other meat and edible meat offal* (HS 020890), *other food preparations* (HS 210690) as well as *preserved peaches* (HS 200870) (Magagane, et al., 2008).

When the Trade Performance Index was used to show how competitive and diversified a given particular export sector is vis-à-vis those of other countries, fresh food exports ranked 16th out of 181 countries, processed foods ranked 22nd out of 159 countries. In general, the diversification prospects for the top 20 agricultural exported products revealed the insufficiency of South Africa's dynamism in the growing markets of Eastern Europe, the Middle East, Asia and Russia all together in 2006 according to Magagane et al. (2008).

A similar study has been done to identify the major South African agricultural exported products in 2005 and finds that on a trend of 10 years, the most exported two product groups for South Africa were above the average of South Africa's total export growth. Those product groups were namely: *edible fruits and nuts* (HS 08) (with contribution of 32%) and *beverages* (HS 22) (with contribution of 19%). The same classification was used to categorize the major agricultural product groups. Those categories are: champions in a growing market, underachievers in a growing market, achievers in a declining market and losers in a declining market. Due to a little fluctuation in time, there have been small differences in export values and in product categories (Daya, 2007).

The study by Daya (2007) tried to identify the greatest South Africa agricultural export potential product by utilizing the ITC tools to obtain data and graphs on trade. He also resorted to Statistics SA. The ITC provides user friendly tools that can help obtain useful

information on trade. Daya (2007) found that three major products in the champion category in terms of export value were *ethyl alcohol*, *wine in containers <2= litres* as well as *maize, groats and meal*. There was an increase in the world market share for these products. However, Magagane et al. (2008) indicated that *undenatured ethyl alcohol* (HS 220710), *other refined sugar* (HS 171099) and *edible nuts* (HS 080290) were products with fast rising world demand.

Waters containing added sugar or flavour (HS 220210), *sunflower oil* (HS 151211) and *chocolate and other preparations containing cocoa weighing more than 2 kilograms* (HS 180620) fell into the underachiever's category. The world demand for these products was quite high and improvement in quality and market strategy to penetrate the world market would be of big profit (Daya, 2007). Both, the study by Daya (2007) and the one by Magagane et al. (2008) indicated that most of agricultural products fell into the achiever's category in declining or/and adversity world market. To name some, they were *wine in containers of <=2 litres* (HS 220421), *fresh grapes* (HS 080610) and *fresh or dried oranges* (HS 080510), yet the biggest loser in declining world market was *raw cane sugar* (HS 170111). The study by Daya (2007) and the one by Magagane et al. (2008) seemed to have similar objectives. They all mentioned South Africa's agricultural product exports' classification, where for example Daya (2007) classified *refined sugar* (HS 170199) in the category of loser in declining market. Yet, Magagane et al (2008) indicated that *raw sugar* and *solid refined sugar* altogether increased their world market shares in markets that grew faster than the average and classified raw sugar uniquely in the category of loser in declining markets. One should notice the classification by Magagane, et al. (2008) of *raw beet sugar* (HS 170112) and *refined sugar* (HS 170191) into the champion category, not to be confused with *refined sugar, in solid form, nes* (HS 170199) that was classified into the category of loser in declining market. The two studies focused on classifying agricultural products as well as on the global demands of these products.

The Department of Agriculture, Forestry and Fisheries (2011) use revealed comparative advantage (RCA) and relative export advantages (REA) to indicate that, in terms of competitiveness, South Africa showed positive results when it was compared with the world average. In the European Union market for example, South Africa has been competing very well in terms of fruits and vegetables as well as beverages, yet negative result has been found with cereals, sugar and tobacco for which it was uncompetitive. In the same analysis Argentinean agricultural exported products had a comparative advantage over South Africa,

but South Africa had a comparative advantage over Brazil in fruits and beverages. With Chile South Africa fares better in terms of vegetables and fruits, sugar and tobacco products. Australia does worse than South Africa when compared with the same products (Department of Agriculture, Forestry and Fisheries, 2011).

Meyer and Breitenbach (2004) provided strategies and options for the apple industry. They made use of the ITC tools to do so. They indicated that the study was made relatively difficult due to the lack to some extent of data on trade especially for some developing countries. Although they referred to other fruits like peaches, grapes, etc., the focus was on the apple industry. The analysis was based upon Trade Map data and subsequent recommendations on strategies were made to improve the apple market. Meyer and Breitenbach's (2004) research proved that some products may be produced competitively in the country while others may not due to different levels of inputs required for specific products. Qualitative inputs such as: technical inputs, soil, climate, etc. and subsequent treatments (i.e. processing, packaging, bar coding, etc.) of the products are very important in highly competitive market. Table grapes were found to be the most important horticultural product in value terms, while apples were found to be the most important in quantity terms. Meyer and Breitenbach (2004) indicated that South African export destination of apples to the world was mostly concentrated in the EU market. For example in 1999, 72% of total apple exports was destined to the EU market and within the EU the UK, Belgium and the Netherlands accounted for 38%; 13% and 12% respectively. Nevertheless in the African market Zimbabwe, Angola, Zambia, all have got 1% or less of South Africa export market of apple.

Figure 4 illustrates total South Africa's exports of fresh apples to the world and to the European Union 27 (EU 27) versus Africa from 2001 to 2012. South Africa's exports of fresh apples to the EU 27 were fluctuating from 2001 to 2007 with a notable decrease in value from 2004 to 2006. From 2007 South Africa exports to EU 27 decreased again. In the meantime, South Africa exports of apples to Africa have been constantly increasing, yet at small rate. In 2012 South Africa's exported value of fresh apples to the EU 27 was roughly the same as that exported to Africa.

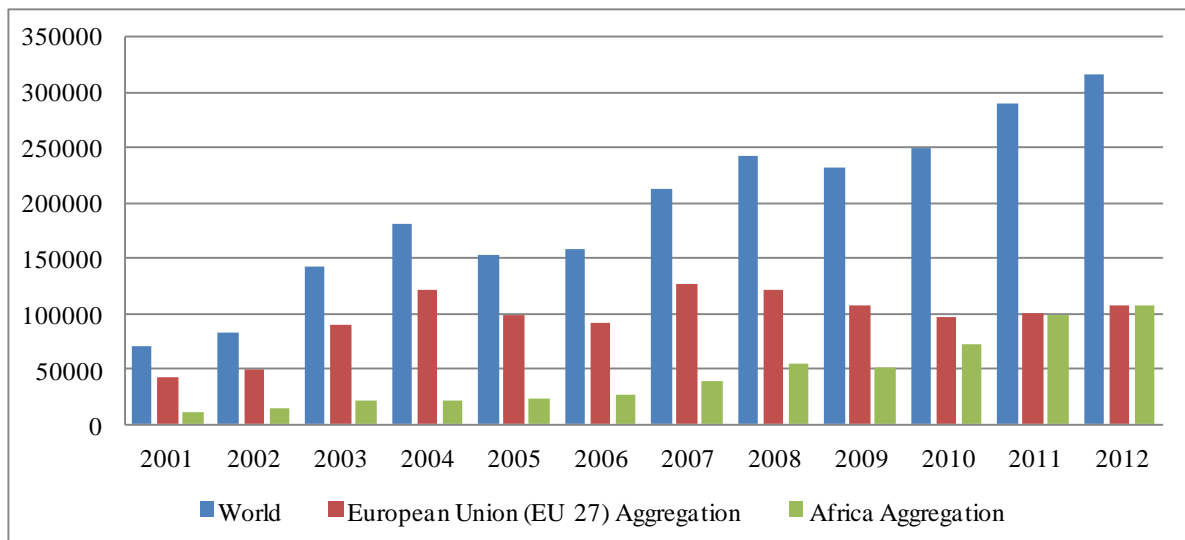


Figure 4: South Africa's exports of *fresh apples* (HS 080810) to the world and the EU 27 versus to Africa 2001-2012

Source: Own compilation with ITC (2013) data

South African apple exporters are affected by diverse factors in their business environments such as: autonomy and the change in consumer demand in the EU. The creation of private sector agencies have changed the channel and opened a possible way for new entrance in the market. This has created a threat for South Africa's exports by increasing competition. Due to increased competition, farmers found themselves obliged to incur additional expenses in order to meet the standards in the world market. For South Africa to remain competitive in the world market Meyer and Breintenbach (2004) proposed some options:

- ✓ Identify the varieties of products sold in the market (world) to keep up with the increasing requirement of consumer changes;
- ✓ New markets may be of benefit because they are not fully exploited, yet they are not easy to penetrate because of different habits related to consumer behaviour;
- ✓ Research and development for strategic directions are important to address industry problems to meet the requirements;
- ✓ Develop a strategy to recreate a strong supply chain and increase negotiation power by investigating the voluntary centralized marketing channels;
- ✓ Create hedging strategies for receipts and payments to limit the cost of foreign exchange transactions and provide confidence in price decisions.

Vink et al. (2002) examined South Africa's agricultural data over two decades. They found that there have been positive trends in international trade for food and beverage products.

Strong growth was noticed in the sector of processed foods and beverages in Europe, it was even bigger in the SADC region. It is worth indicating that the study by Vink et al. (2002) was not aimed at finding new markets, but the purpose was to offer explanations for the trends, from which domestic market deregulation and external market liberalization can be mentioned amongst others. The Trade Map database was used for trend estimations, export destinations and country of origin. They also made use of the database of trade statistics provided by the Department of Agriculture, Forestry and Fisheries.

The biggest agricultural quantity and/or value exported was destined to eight countries only. In Southern Africa only Mozambique appeared on the list. In 2000 Mozambique was South Africa's fifth largest export destination for agricultural and food products. The rest of the partners were all industrial developed countries namely: United Kingdom, the Netherlands, Belgium, Japan, United States, Germany and Saudi Arabia. These countries accounted for 50% of South Africa agricultural and food exported products in 2000 (Vink, et al., 2002). Again Trade Map was an indispensable tool in this study.

Sandrey and Vink (2006) raised the issue of South Africa having the same agricultural exported products as nearly a century ago. They found that poor physical resources were one of the constraints to diversification; there has been a small benefit from the agreements on agricultural because South Africa lacked strong negotiation positions on the one hand and on the other hand because the misperception of opportunities lead to a lack of utilisation of those opportunities by South African negotiators. The diversification seemed to be blocked by the lack of innovation by farmers and agribusiness (only a few succeeded in doing so). There is an increasing optimism due to the deregulation that new entrants in the industry would bring new innovation (Sandrey & Vink, 2006).

Intra SACU trade presents some difficulties for assessing the original provenance of some exported products from South Africa to Botswana, Lesotho, Namibia and Swaziland, thus leading to a more complex data collection of some traded products (Vink, Sandrey, McCarthy & Zunckel, 2006). There has been an increase in agricultural production over forty years. Production has nearly doubled in the SADC region while at the same time production per capita has declined. It justifies the increasing demand in the region and explains the phenomenon that population growth is increasing faster than the production of agricultural products in the region. Thus this is an indication of how important trade is in the SADC region. Vink et al. (2006) indicated that one of the causes was the political conflicts in

Zimbabwe and in the Democratic Republic of the Congo. Possibilities of increasing agricultural production in the region are still available, i.e. there is no lack of arable land in the SADC region and it is possible to apply technology with the purpose of increasing yield. In the meantime South Africa must develop strategies of increasing exports and investing in foreign countries because of arable land availability in those countries. In the study by Magagane et al. (2008) they aimed at identifying South African agricultural products that need priority assistance for trade promotion and/or allocation of resources in order to get the best profit out of scarce resources.

According to Sebei (2007) Mozambique presents some trade opportunities for South Africa's exports. He made use of the ITC's Trade Map exploiting the indicative Trade Potential Index at six digit HS code to identify agricultural products for potential future trade. South Africa's exports to Mozambique were 14 times greater than Mozambique's exports to South Africa, i.e. South Africa is important in the Mozambique market. The big competitors of South Africa in Mozambique are Portugal and Brazil due to the advantage they have in speaking a common language, Portuguese. Even though the war in Mozambique had stopped the progress of agricultural production for a while, Mozambique also has products to export to the South African market in which it has comparative advantages such as: *tea, nuts, copra oil, cotton*, etc. While South Africa has the advantage of exporting to Mozambique products such as: *sugars, fruits, dairy products, beverages*, etc. (Sebei, 2007). South Africa exports to Mozambique seem to be constrained by language barriers and the lack of efficient infrastructure in Mozambique.

2.4 Current trade agreements of South Africa within Africa and potential effects of new agreements

Globally there are 203 regional trade agreements (RTAs) that are in force. The statistics show that each country is a party to one or more agreements. Sub Saharan Africa counts 14 regional trade agreements or trade cooperation agreements. Many African countries are committed in more than one bloc for strategic and political reasons. One such bloc is known as the Regional Economic Community (REC) (Meyer, Fenyes, Breitenbach & Idsardi, 2010). The current discussion focuses on South Africa's trade agreements within Africa and potential effects of new agreement will include some agreements with non-African countries.

South Africa's Department of Agriculture, Forestry and Fisheries is involved in different trade negotiations and pursues different commitments with various partners in the world. It is

important to note that agreements with other overseas countries do not have a negligible effect on trade within African countries. Countries negotiate with one another to increase trade in order to improve welfare. The agreement may be general or preferential and usually includes a group of products. Exporters should always make sure they know the agreements committed with their trade partners and be informed of changes in the agreements.

The agreements may be bilateral or multilateral, it means between two countries or more than two. In general, international trade is controlled and regulated by unilateral barriers. These barriers include tariffs, non-tariff barriers and all other government prohibitions. The purpose of trade agreements is to reduce those barriers and to provide all countries with the benefits of increased trade. The importance of reciprocity of agreements is based on the fact that no government may be willing to sign the agreement unless it expects to gain and be better off. The Most Favoured Nation (MFN) clause of the WTO provides against the possibility that one of the parties to the present agreement will offer lower tariffs to another country. Agreements also include those providing for national treatment of non-tariff restrictions. This means that both governments engage not to duplicate the properties of tariffs with non-tariff restrictions, for instance discriminatory regulations, selective excise taxes, quotas, and special licensing requirements. Sometimes, multinational agreements are easier to reach than separate bilateral agreements, because the gains to efficient producers from worldwide reduction are large to permit substantial concessions. The General Agreement on Tariffs and Trade (GATT) which was the most important modern multilateral trade agreement reduced the world tariff levels and expanded world trade. The similar agreements continue under the support of the World Trade Organisation (WTO) that substituted the GATT in 1995 (Trebilcock & Howse, 2005).

South Africa's trade agreements in Africa are mainly the Southern African Customs Union (SACU), the Southern African Development Community (SADC), the bilateral trade agreement between Zimbabwe and South Africa, and the SADC-EAC-COMESA Tripartite FTA which is still under negotiation (SA Department of Trade and Industry, 2012). For SADC, for which negotiations to determine tariff structure are at an advanced stage, the trade protocol was ratified by more than two thirds and was implemented on 1st September 2000 (SA Department of International Relations and Cooperation, 2004). In trade much progress has been made to accomplish different objectives in the SADC's regional economic integration program (Trade Law Centre, 2012).

In South Africa, apart from being member in different trade agreement regimes, the liberalisation of foreign trade through changing the import replacement policy of the past years to more manifested open export-driven growth eased by the macroeconomic strategy of the new democratic government, has also improved the export growth (Tregurtha & Vink, 2002). Another benefit for South Africa would be the transformation of SACU and Mercosur preferential trade agreement (PTA) into a full free trade agreement (FTA). It would develop the South-South relationship in the three developing economies of Argentina, Brazil and South Africa (Sandrey, Jensen & Vink, 2011). However, SACU and Mercosur signed a preferential trade agreement at the end of 2004 with the purpose of achieving a free trade area (FTA). The process slowed down and the agreement was reviewed and replaced in 2009.

Apart from the World Trade Organization (WTO) of Agreement on Agriculture (AoA), there is increasing interest for different countries to develop free trade agreements. All country members in the WTO have committed to at least one or more free trade agreements except for Mongolia. The WTO recommends that all the free trade agreements should include substantially almost all traded goods (Sandrey, Jensen, Vink, Fundira, Meyer, Hughes, Nyhodo & Smit, 2008), i.e. agricultural and non-agricultural products.

There are always implications for the wellbeing of the people in partner countries because free trade agreements and other policies can have a positive or a negative impact on different members in the country. According to Sandrey et al. (2008), even if all parties committed to a tariff reduction of 100% on borders (i.e. free access in foreign markets); the effects on wellbeing of the people in partner countries may not be the same as there are always winners and losers. If there is an increase in income because of a change in policies, the country can also increase its consumption of goods as much as its increase in its income, so improving the welfare of its people (Sandrey, et al., 2011).

Some weaknesses of regional economies can be mentioned (Meyer, et al., 2010): they increase the cost of membership in the bloc, they create harmful competition for the providers of capital input, they could contradict obligations for member countries leading to inconsistency in objectives and conflicts in working obligations, consequently creating a reduction in the ability to pursue coherent and effective integration in the bloc.

A country should not only be content with its bilateral agreements, but should also take into consideration the agreements that the trading partners have with other countries in the world, because they influence price which is directly correlated with quantity, quality for premium,

rule of origin, fair trade, etc. Therefore all the elements mentioned above can play an important role in quantity and value of imports by a country.

An example of a scenario of policy change is shown in table 4, assuming a 100 percent reduction of tariffs between South Africa and its chosen trade partners.

Table 4: The individual contributions to welfare gains, US\$ million at 2015

| Region or country | Comprehensive FTA | With contribution from | | | | |
|-------------------|-------------------|------------------------|-------|-------|-------|------|
| | | IBSA | EU27 | China | Japan | USA |
| South Africa | 3,348 | 1,473 | 1,117 | 304 | 253 | 201 |
| Botswana | 29 | -18 | 28 | 14 | 0 | 4 |
| Rest of SACU | 631 | -19 | 611 | 13 | 2 | 23 |
| Nigeria | 77 | 40 | 23 | 9 | 4 | 0 |
| Rest of Africa | -36 | -17 | -2 | -10 | 1 | -7 |
| EU | -2,220 | -1,257 | -321 | -138 | -211 | -293 |
| USA | -98 | -333 | 78 | 64 | -124 | 218 |
| India | 916 | 1,004 | -30 | -29 | -9 | -19 |
| China | -63 | -268 | -30 | 313 | -21 | -56 |
| Brazil | 1,393 | 1,472 | -39 | -1 | -17 | -23 |
| Japan | -275 | -280 | -137 | 9 | 213 | -80 |
| Rest of the world | -987 | -896 | 77 | 77 | -41 | -204 |

Source: Sandrey, Jensen, Vink and Fundira (2007)

Results indicate that South Africa would gain the biggest welfare from IBSA (i.e. India, Brazil and South Africa) and the EU FTAs; the gains to Botswana and the rest of SACU are mostly from the EU; the EU would lose its level of welfare, the loss results from all different chosen parties of analysis. India and Brazil gain much more from IBSA (Sandrey, et al., 2007).

South Africa's trade agreements within Africa are given in more detail in the following sections.

2.4.1 Zimbabwe and South Africa bilateral trade agreement

South Africa and Zimbabwe made an agreement in 1964, they provide for preferential customs duty, with discount on quotas for certain goods. A new trade agreement was signed in August 1996; they agreed to lower the tariffs and quotas on the textile imports from Zimbabwe. Trade between South Africa and Zimbabwe grew faster after the regime change

in South Africa due to the removal of the international sanctions imposed during the apartheid regime. The agreement has been extended to the agricultural sector (FAO, 2005).

The agreement between South and Zimbabwe is the oldest of the bilateral agreements that Zimbabwe continues to keep. In this agreement, South Africa is the most favoured when it comes to proving if it is necessary to maintain or change the commitments. This is to say, South Africa has facilities to prove and to demonstrate the effects of a change that can arise in the market as a result of alternative policy in the agreement. There are some potential options of changes because of the increasing demand on the side of Zimbabwe to change policy because the private sectors claim not to be better off in most of the policies; this causes Zimbabwe to be at the centre of demanding a modification or a new agreement with its neighbours (Hess, 2001). Zimbabwe justifies its demand for change by the following arguments (Hess, 2001):

- South Africa is Zimbabwe's largest trading partner because of historical and spatial reasons.
- South Africa's economy and industry are by far the biggest in the region, as a result, creating a situation where Zimbabwe is dependent on South Africa unequally. In fact South Africa exports to Zimbabwe consist of machinery, chemicals, transport equipment and electrical products. Zimbabwe main exports to South Africa consist of textiles and clothing, wood products, minerals, agricultural goods, tobacco and metal products.
- Products to be exported to South Africa from Zimbabwe depend in most cases on the agreements.

The long run bilateral negotiation between the two countries depends on the evolution of the SADC trade agreement. Nevertheless the SADC trade agreement permits member countries to maintain their existing bilateral and/or preferential commitment when they find it to be more favourable to apply.

2.4.2 SACU

It took negotiators eight years to sign a new Southern African Customs Union (SACU) on 21 October 2002. SACU's country members include South Africa, Botswana, Namibia, Lesotho and Swaziland. SACU protocol aims at establishing a democratic approach to trade policy while minimizing revenue instability during a period of declining tariffs (Kirk & Stern,

2005). The new SACU agreement contains 51 articles; it is a significant enlargement of the scope of the one in 1969 agreement, which contained only 22 articles. It has also a secret memorandum of understanding that was only published in the early 1990s. The new SACU agreement includes governance and administration, economic policy and regulatory issues as well as revenue sharing. Its objectives are: to promote the integration of the members in the global economy; to facilitate the cross-border movement of goods between the members; to create effective, transparent and democratic institutions in order to ensure equitable trade benefits to the signatories; the facilitation of equitable share of revenue from customs, excise and additional duties; the promotion of fair competition, a substantial increase in investment and a boost to economic development; and the facilitation of the development of common policies and strategies (Kirk & Stern, 2005).

South Africa implements the applied MFN common external tariff in accordance with its SACU members. The applied tariff rate by SACU members to the MFN decreased on average for all products from 11.4% in 2002 to 8.1% in 2009. Protection has shifted in favour of agricultural products with a rate of 10.1% in 2009. The common external tariff applied to agricultural products is a mixed duty (i.e. combining both the ad valorem and the specific rate) (Lizano, Barba, Finn, Friedhein & Degbello, 2009).

In terms of procurement, there is no SACU country that is party to the WTO plurilateral agreement on government procurement. However Botswana, Namibia and South Africa apply price preferences in their government procurement regimes or/and the reservation schemes to support the economic empowerment of their inhabitants (Lizano, et al., 2009). South Africa has the most diversified economy in the SACU region, yet the agricultural sector's importance in the economy and in trade has declined since the previous review of SACU. It remains important in employing unskilled labour (Lizano, et al., 2009).

The free movements of goods and products in SACU are limited; the BLNS countries (i.e. Botswana, Lesotho, Namibia and Swaziland) must comply with tariff policy in the region where there is a consensus of protecting infant industries in the BLNS countries, but not in South Africa. Part of the high trade cost is caused by the so called unnecessarily complicated border posts which are said to be maintained in order to capture data on intra-SACU trade for revenue sharing objectives, for NTBs administration (e.g. infant industry protection and because of the non-harmonization of the domestic sales taxes). These factors partly explain

why trade flows between Southern African countries are lower than what they could be (Gillson & Charalambides, 2011).

2.4.3 SADC

The agreement in SADC is a free trade agreement, which means that member countries do not impose tariffs for trade and/or business operated across their frontiers with each other. Duties and other restrictive regulations of trade (but not where necessary) are removed beneficially on all the trade between the member countries in products from the region or territories. Here tariffs are continued to be imposed upon non-members countries. The aim is to liberalize markets in order to provide more opportunities for business and to compete in a global realm. The concept of a free trade agreement is not the same as free trade (Hassanien, 2010).

In the SADC free trade agreement, the degrees of benefit are different from one country to another due to different factors related to the level of organisation and policies within countries. Theory suggests that all country members would benefit if they are able to exploit their comparative advantages.

SADC country members face various social, economic, educational, development, health, diplomatic, defence, security and political challenges. These issues have been alleviated to some extent in Angola, yet in the DR Congo there remain serious problems to be addressed. Effective solutions to these problems may not be obtained instantly in each and every domain. Cattle diseases and organised crime remain problematic. Problems related to war in one country can spread to its neighbours and damage their economic welfare (Le Billon, 2011). The positive change that trade can bring is delayed, even blocked by the challenges mentioned above. The same situation can be brought about by different product standards, tariff regimes, bad and impassable roads, weak customs' organization and structure.

In 2008 SADC achieved part of its objectives and terms. Almost 85 percent duty free trade was achieved, while the remaining 15 percent constitutes a sensitive list that was expected to be opened from 2009-2012 when most of the completely free trade tariff lines were expected to be attained (SA Department of Trade and Industry, 2012). Presently, products from SADC into SACU are mostly tariff free, but Angola, the DR Congo and Seychelles are still outside of the agreement (Sandrey, 2013). The rest of the members agreed largely on the treaty with some exceptions.

Some of the results of the agreements within SADC are as follows: countries can access a larger market with the possibility of experiencing economic growth brought about by the economies of scale in the domestic production; the agreement boosts competition within the region; it might eliminate some production within South Africa and elsewhere especially for small producers; bigger and more efficient producers would increase productivity and output; competition will help small producing countries to improve the quality and efficiency in order to better readjust in the global market. In terms of capital input and technology, South Africa has a big advantage compared with its group members within SADC. In addition South African products will be more competitive in the region with regard to for example quality, packaging, bar code, etc. Hence from these advantages it can experience a faster market growth than its group members (Chauvin & Gaulier, 2002).

Like in other parts of the world, SADC interacts with other groups in trade regimes and makes it difficult to study the features separately. For instance, liberalization of agricultural trade restrictions on customs duties, justifies a large benefit from EU-SADC FTA. Yet, SADC economies also are affected by the prohibition of agricultural subsidies in the EU (Keck & Piermartini, 2005).

South Africa's exports of agricultural and food products to SADC's member countries represent nearly 16% of total South Africa's agricultural and food exported products, yet imports from the region (from SADC) is nearly 8% of South Africa total agricultural and food products. South Africa's exports to SADC is dominated by beverages, cereals, sugars, miscellaneous edible preparations as well as fruits, but its imports from SADC are mainly cotton, tobacco, coffee and sugar (Sebei, 2007).

2.4.4 SADC-EAC-COMESA Tripartite FTA

The SADC-EAC-COMESA Tripartite Free Trade Agreement is still under negotiation. Upon completion it will be composed of 26 countries with a combined GDP of more or less US\$ 860 billion and a combined population of roughly 590 million people. This protocol framework raised its basis from the Lagos Plan of Action and Abuja Treaty establishing the African Economic Community (AEC). It requires the rationalisation of the continent's regional economic communities. The completion of this FTA is planned to go for five years of consultations and consensus (SA Department of Trade and Industry, 2012). The FTA will in the first phase cover trade in goods. Services as well as other trade-related areas will be covered in the second phase (Lunogelo & Mbilinyi, 2009). The latter includes: the joint

implementation of inter-regional infrastructure programmes and the institutional arrangements. The policy instruments include, but are not limited to: harmonisation of trade policy, the consensus on a common internal and external tariff, the common application of rule of origin, the certificate for exporters and importers, health, safety standards, the procedure of export and import, how to overcome non-tariff barriers, etc. (Lunogelo & Mbilinyi, 2009).

2.5 Promoting South Africa's exports of agricultural and food products

Exports orientation gained more prominence in the 1990s. This adjustment led to improvement in the industrialization and trade strategy that was the policy challenge at the time (i.e. turning the imports' dominance into the exports' dominance). In 1994, South Africa has undergone remarkable social and economic changes with policy reforms which led to an open market economy. It is recognized that part of the changes were predicted and anticipated, whereas others were the result of South Africa's integration in the world economy after the sanction period during apartheid. In the agricultural sector, the change was observed in all types of farming. There are two types of farming in South Africa. It is said to be a dual agricultural economy, i.e. there is well developed commercial farming as well as small scale communal farming that are mainly located in the former homeland areas. The economic change was based on removing the socialist control of agriculture under the national government, improving conditions of the farm labour force and initiating agrarian reforms in order to remedy the issue of land inequities (Du Plessis, 2012).

The South African government tackles the issue of promoting trade of agricultural and food products in different ways that can fall in trade diplomacy, tariff and/or export promotion policy as well as perfection of farming conditions which indirectly leads to an increase in quantity produced and an improvement of quality of commodities and/or products. The South African government also aims at informing its producers and exporters about market location opportunities, packaging and labelling to meet new or existing technical requirements. The government facilitates the provision of quality control services, and help to develop infrastructure by taking the option of utilizing policies provided in the green box of world trade organization. The government also ensures that the farming sector and agro industries have fair access to the Department of Trade and Industry measures that include: the export marketing and investment assistance scheme, shipment financing through the Credit Guarantee Insurance Corporation, export promotion support through trade fairs, trade

missions and diplomatic trade missions. The South African government develops policies that encourage South African producers and agricultural product processors by organizing visits to other countries to meet authorities and businessmen to discuss economy and trade issues. One of these kinds of visits took place in Botswana the 31st August 2012 where different South African sectors including agri-processing, mining and construction, were represented. Roughly more than 100 business men and women represented South Africa at that visit; this bilateral cooperation event between South Africa and Botswana is expected to be taking place yearly in alternative places of the two countries (SAinfo, 2012). These diplomatic trade negotiations have resulted in substantial open markets for the country. For example South Africa has been included in the General System of Preferences (GSP) of the USA and the EU (Humphrey, 2000). There is an increasing number of negotiations of broader bilateral and/or regional trade with different countries that target trade of agricultural products. The European Union is a good example of trade preferences with South Africa in this sector (Humphrey, 2000). Tariff regimes were negotiated and rationalized and the levels of protection were increasingly lowered (Kaplan & Kaplinsky, 1999). In the Southern African region, South Africa has made noticeable progress towards the implementation of the Southern African Development Community (SADC) free trade area (Olivier, Zyl & Williams, 2010).

The majority of South Africa's exporters in the food industry rely and focus more or less entirely on the ability of the government to influence the global trading system (Kaplan & Kaplinsky, 1999). Negotiating trade agreements has become an important tool for gaining market access for agricultural products, therefore trade diplomacy is an important part of actions designed to promote competition and efficiency for South Africa in the world market. The South African government should be more active in the creation of trade regime preferences with its trade partners. However, this strategic policy would be ineffective with global trade liberalisation. In the meantime, it helps increase South Africa exports of food products, especially for fresh and horticultural foods. It is important to remember that trade diplomacy includes obligations from South Africa's trade partners as well. There are requirements in all protocols agreed for South Africa to offer favourable concessions that improve market access for its trade partners, thus prioritizing pursued partners where successful agreements have been made. South Africa would sign a bilateral agreement or a regional agreement only if there appears to be greater market access for South African agricultural products than the one in the WTO agreement in case where the partner is a member of the WTO. South Africa must develop trade negotiations in order to get broader

market access for agricultural products, nevertheless successful trade diplomacy demands tactical direction and organization.

It is important that South African government makes agricultural policies that make it easy for farmers to generate income (farmers and workers) and stimulate GDP growth. In fact, it is in the interest of the government to create a strong agricultural sector by encouraging local production to reach self-sufficiency within the country and to export products in order to create jobs and to generate GDP growth. The government should give increasingly importance to sectors that are involved in international and regional trade. The agricultural sector can benefit from being active in international trade via increasing exports.

South Africa must keep up with the adjustment of the new world trading order in international scenes and commit itself to promote further international trade reforms. This can be done by being active in pressuring for more reasonable access for its products to international markets. For agricultural and food products, the improvement of quality via investing more in research and technical developments should be at the heart of the sector development. South Africa should be more active at establishing laboratories and offices for the control of foods' conditions in terms of food safety. The latter is very influential in the world market because many governments are phasing their tariffs out but they still have very strict requirements when it comes to non-tariff barriers such as SPS measures. Today South Africa is facing the problem of modernising its system of foods control (DoH, the dti & DAFF, 2013), even though it has an effective system of food control in SADC.

Problems that producers and exporters face include, amongst other, lack of information and skills, poor or insufficient access to farming as well as poor and/or lack of infrastructure. The majority of these problems meet the criteria to be supported by the provision made in the green box of the agreements on agriculture. The green box stands for subsidies that are said to be non-trade distorting. Here subsidies can be made on for example problems to research and extension, training facilities and courses, development of export marketing expertise, pest and disease control and inspection services, market development support in which the government provides assistance to the agricultural field to improve markets to make it easy for the sector to join in trade missions, trade fairs and different exhibition as well as in all activities that improve international South African agricultural products information and/or awareness. For market support, here the government should facilitate the availability of market intelligence and information based upon common and private funded research in the

local market and in the world trade trend research. For sustainable lower transaction costs that occur in public expenditure deliberations on infrastructure, the focus should be on developing infrastructure for agriculture, roads, water supply, electricity, telecommunication, etc. The last but not the least, the government should interact often with local authorities to guarantee the provision of infrastructure that lowers transaction costs for farmers and exporters. That is why South Africa must create and facilitate the flow of market information and use policies in the green box to remedy the issue of access to farming on one hand. On the other hand, skills development must be continually addressed to keep up with the unceasing change in quality and other technical requirements in the world market.

2.6 Sanitary and phyto-sanitary measures

Tariffs are not the only elements that are made to be trade barriers, there are other requirements that can be even more demanding than tariffs, and those barriers are known as non-tariff barriers (NTB). Sanitary and phyto-sanitary measures (SPSs) also known as SPS measures, are one example of NTB's. In their original sense, the SPSs are made with the purpose of protecting human beings, animals and plants (i.e. sanitary regulations apply to people and animal products, phyto-sanitary regulations are those that apply to plants and plant products). All of these fall in the criteria of health protection and food safety. The constraints are set on imports from all members related to bacterial contamination, pesticides control as well as labelling requirements. Strict controls and restrictions are made for animals and animal products and for plants and plant products to avoid imports of pests and diseases. There are three pertinent international scientific organizations that deal with SPSs, namely (Isaac, 2004):

- For food safety: Codex Alimentarius Commission (CAC), it was established by both the World Health Organisation (WHO) and Food and Agriculture Organisation (FAO) with the main objective of protecting the health of consumers and facilitating the trade of food by putting international standards on foods and other recommendations to governments for approval.
- For animal safety: Office of Epizootics (OIE)
- For plant safety: International plant protection convention (IPPC)

In the concern mentioned above, SADC established an organization coordinating committee to work in transparency regarding SPS measures and to guarantee the non-application of all

unnecessary protections when using SPS measures. The World Trade Organisation (2013) stipulates that members shall ensure that their SPS measures are based upon appropriated criteria in situations of risks related to human, animal and plant life or health. This applies also to SADC countries because they are advised to follow world standards. Every member state's National Committee on SPS Measures (NCSPSM) is committed to enforce the SPS measures in the SADC region. The organization in SADC plays an important role by coordinating and guaranteeing the implementation of the regulation of food safety from international standards as well as within SADC. One of the structures for maintaining this achievement is the SPS secretariat that collects and gathers information on food safety regarding the matter of inconsistencies in the Southern African countries (Mukumba, 2011). SADC member countries committed themselves to adhere to SPS measures discussed in the WTO, which are based on international standards, guidelines and recommendations in order to protect human, animals and plants lives and/or health in SADC region on one hand, and to facilitate and to create trade within the region on the other hand. In the SADC protocol member countries are recommended to base their sanitary and phyto-sanitary measures on international standards, this is done to strengthen harmonization with the purpose of improving trade and increasing food safety in Southern Africa (Mukumba & Hornsby, 2011). In SADC, the SPS measures are summarized as follows:

- ✚ Each SADC country member shall provide and guarantee acceptable level of risk or/and appropriate level of sanitary and phyto-sanitary protection.
- ✚ Disease prevalence or area of low pest: if a specific pest occurs in a country member/, there must be a check or eradication or a control.
- ✚ Codex Alimentarius Commission (CODEX): as stated according to the WTO.
- ✚ Food must not harm consumers: food safety.
- ✚ SADC member shall establish, recognize and apply the same SPS to make things easy (harmonization).
- ✚ The requirements must comply with the World Organisation for Animal Health (OIE) system.
- ✚ The requirements must comply with the international plant protection (IPPC) system.

The SPS measures in SADC are set to meet the international standards in order to promote exports of SADC country members not only within the SADC region but also outside of SADC countries. However in many cases, complying with the SPS international standards is

critical for exports of food and agricultural products (Brückner, 2005). South Africa does not encounter significant problems in terms of SPS measures when it comes to exporting to SADC countries or outside of SADC because it is the only country in Sub-Saharan Africa that easily meets the international standards as set by the WTO on SPS measures. In terms of laboratories' standards, South Africa is the only country in Sub-Saharan Africa with a record of significant accreditations. These accreditations include the private sector. For example in July 2009 for human being health control, 312 out of 340 accredited laboratories in Sub-Saharan Africa were in South Africa (Gershby-Damet, Rotz, Cross, Belabbes, Cham, Ndiokubwayo, Fine, Zeh, Njukeng, Mboup, Sesse, Messele, Birx & Nkengasong, 2010).

In South Africa, the government has several food control and management programs. The Department of Trade and Industry (the dti), the Department of Agriculture, Forestry and Fisheries (DAFF) and the Department of Health (DoH) are all involved in food control. There is a need for robust sanitary and phyto-sanitary measures since they are meant to safeguard health and safety of South African consumers. In addition, these measures are of importance in the world market for market access. These measures are consistent with those under the WTO on SPS agreements. The management of the system encompasses: legislative frameworks support, institution capacity, human and financial capital, infrastructure (i.e. laboratories, quarantine facilities) and effective dynamic control movements (DoH, the dti & DAFF, 2013).

The key principles of the SPS measure include amongst other (Australian Department of Agriculture, 2007):

- Harmonisation: countries are entitled to set their own SPS measures provided that they comply with the terms of the SPS agreement. Countries are advised to base their SPS measures on the world standards, guidance as well as recommendations if there are any. Partner countries are authorised to train the staff if they need to be able to fulfil their SPS measure obligations and to provide technical assistance.
- Equivalence: If partners are WTO members, the SPS agreement requires that importing countries accept the SPS measure of exporting countries as equivalence on condition that the importing country meets the appropriate level of protection. Usually, the equivalence is achieved with bilateral consultations by sharing technical information and requirement.

- Appropriate level of protection: since SADC countries follow the world standards, the appropriate level of protection would be the level of protection set by the WTO members for human, animal and plant health protection within their countries. The appropriate level of protection comes before the SPS measure. The SPS measures are established to meet the appropriate level of protection. Each country can set its appropriate level of protection, yet it should not be beyond the world standards to avoid discrimination and hidden restriction on trade.
- Risk assessment: is the evaluation of potential damage or negative effects on human and animal health that can be caused by the presence of additives, contaminants, toxins and/or organisms in food, beverage and other related products. Risk assessment involves the process of gathering scientific proof and relevant economic reasons on the threats implicated by letting a specific product to enter the country. The importing country is free to look for information on issues such as pest and diseases that might be associated with the product for which permission to import has been approved and if they are present in the exporting country. Example of questions that may be asked:
 - Do the pests occur in the exporting country?
 - Are the pests being controlled?
 - Are they restricted to specific parts of the country?
 - How efficient and/or effective are the measures applied to ensure that the products to export are free from pests, disease and other contaminations (i.e. a healthy commodity or food products)?
- Regional conditions: It is recommended that countries adapt their SPS measures to the regional conditions from which the product is exported to which the product is imported. Exporting countries that claim pest or disease-free areas or areas of low pest or disease occurrence must demonstrate to the importing country that the areas may remain pest or disease free areas or areas of low pest or disease prevalence. The International Plant Protection Conservation (IPPC) and the World Organisation for Animal Health (OIE) have set standards for pest free areas (PFAs). The IPPC's standards provide an important guidance to establish PFAs for pests of plants.
 - ISPM 2 and ISPM 4 deal with control on particular survey to detect a pest or to map the limits of its incidence.
 - ISPM 6 deals with surveillance work.

- ISPM 8 provides guidance to determine pest status in an area based on pest records.
- Transparency: Countries are recommended to provide information on their SPS measures and inform changes in their SPS measures. Countries are required to publish their SPS regulation, this done by national notification authority or an agency.

In SADC, as it should be elsewhere for countries the follow the world standards, sanitary and phyto-sanitary measures should include all applicable laws, decrees, regulations, requirement as well as procedures. They include inter alia, end product criteria, processes and production methods, testing, inspection, certification and approval procedures. For quarantine treatments, they include related requirements associated with animals' transport or plants' transport and the materials necessary for the survival in transport duration. They also include provision on related statistical methods, sampling procedures and risk assessment methods. Finally packaging and labelling requirements that are directly related to food safety are also included (SADC Committee of Minister of Trade, 2008).

In order to ensure that the requirements are met for the products to be exported, it is important to verify with the appropriate authorities of the importing country. This should be done because they are in the best base to provide the requirements for agricultural and food products in their country.

2.7 Summary and conclusions

This chapter reviewed different export market selection methods and gives the advantages and the disadvantages of each method. The theory of the International Trade Centre indices is given in more detail since the ITC multiple criteria market selection method is chosen for market screening. It is followed by an overview of existing trade related studies for South Africa with different methodologies, but with almost the same objective (i.e. export promotion). Section 2.4 gives current trade agreements with other African countries in which South Africa is a signatory and mentions some gains within the parties. South Africa's trade promotion strategies are given in section 2.5. The SPS measures review and organisational structure in SADC concludes the chapter.

The methods discussed above all aim at finding market opportunities even if they have different terminology. Nevertheless one method may be better than another depending on factors, amongst other, the number of countries, the number of products for market selection,

data availability, the objective of the decision maker, etc. The Cuyvers decision support model, in which the assumption is that all markets hold export opportunities for a particular country, makes it possible to combine all products and countries. This assumption is the basis for the decision support model. This model is best when no distinction is made between countries and all products are considered. The elimination of no attractive markets is progressive and made possible by the means of applied filters at different levels of selection.

The Papadopoulos et al. trade off model can also be used for a limited number of countries and products. This model requires taking into consideration all aspects of consumption (i.e. apparent consumption which is calculated by taking into account the importing country domestic production, imports and exports). This aspect would be very interesting if the importing country is a net exporter of the products, in which case new export markets can be found by means of identifying where the importing country actually re-exports the same products. The Papadopoulos et al. method becomes quite cumbersome because of converting qualitative data such as trade agreements, sanitary and phyto-sanitary measures into quantitative numeracy in order to make it possible to compare between different factors.

One can also make use of Russuw and Okoroafo's global screening model for a limited number of products, but it includes characteristics of the macro economy that are not directly related to the demand of products. Those factors include amongst other money supply, total internal reserves, unemployment rate, etc. This model was not used here.

The ITC multiple criteria method, which entails the calculation of various indices for product and market selection, is frequently used. The ITC multiple criteria method is time consuming when no distinction have been made between countries and products. Nevertheless the ITC multiple criteria method is the best when there is a limited number of countries and a well-known limited number of selected products. In the case of this study, there are a few countries that are taken for market selection (i.e. SADC member countries) and limited number of selected products at six digit HS code. So the ITC multiple criteria method is the best for this market research and is used here. The International Trade Centre, the provider of the ITC multiple criteria method, provides also analysis tools that are user-friendly. This is one of the reasons why this method is chosen among others, despite the fact that there are other methods (e.g. the Papadopoulos et al. trade off model and the Russuw and Okoroafo's global screening model) that can help analyse short-listed countries and products. In the composite index matrix for product selection, the main indices are: the Export Performance

Index, the World Import Performance Index, which combine to form the Export Potential Index. To identify the most appropriate market for a selected product (the country-product combination), the Market Attractiveness Index (MAI) is used. Here only the country ranking first in a product's MAI is selected for further discussion.

The results between studies vary because of different objectives. Behind the clearly mentioned objective there is the idea of improving trade whether by finding new market opportunities, by improving diplomatic practices, by creating infrastructure to facilitate production and quality improvement, or by helping industries and producers apply new knowledge and technology, etc. The literature converges with the purpose of this study in the sense that this study also aimed at improving South African trade by identifying opportunities and by giving the characteristics of the target markets.

South Africa has committed to different trade agreements in the world as well as in Africa. Agreements are made with the purpose of improving trade in each party. It may happen that the benefits of trade agreements are different for the committed parties, but the objective remains the same: decreasing barriers to trade and increasing trade to improve the wellbeing of inhabitants.

South Africa promotes trade of agricultural and food products by trade diplomacy (for example trade agreements), tariff policy or/and export promotion policy for which protection is mainly provided by justifiable and reasonable tariffs, important sanitary and phyto-sanitary measures as well as other reasonable obligations such as compulsory certificates with partner countries. The South African government informs its producers and exporters about market opportunities, packaging and labelling to meet new or already existing technical requirements. The government facilitates the provision of quality and conditions of food control services and they help to develop infrastructure by utilizing non-trade distorting policies provided in the green box of the WTO.

In terms non-tariff barriers, the main SPS measures include all applicable laws, decrees, regulations, requirements as well as procedures to meet the compulsory standards. They include, amongst other, end product criteria, processes and production methods, testing, inspection, certification and approval procedures. For quarantine treatments, they include related requirements associated with animal and plant transport and the materials necessary for the survival during transport. The provision on related statistical methods, sampling

procedures and risk assessment methods are also taken into consideration. Finally packaging and labelling requirements that are directly related to food safety are included as well.

Chapter 3: Product and market selection

In this chapter the agricultural and food products initially selected are discussed as well as the final list of products for which markets were identified in SADC. The final list of products was influenced by the results of the ITC indices. The indices are based on historical data as discussed in the previous chapter. Once the products were selected, an analysis was carried out with regard to the production of the chosen groups of agricultural and food products, the demand, etc. A Market Attractiveness Index was computed for each of the selected products. The country with the highest MAI for each product is discussed in chapter 4.

3.1 Data source

The data chosen to study the different products and markets are from the International Trade Centre (ITC), which gets it from the UNCOMTRADE, one of the biggest trade databases in the world. Data are obtained by means of software called Trade Map developed by the ITC and accessed through the internet at www.trademap.org.

Two sources of data were considered initially, namely the International Trade Centre (ITC) (Trade Map data) and the Food and Agriculture Organisation (FAO) of the United Nations (FAOSTAT, 2012). Trade Map is user-friendly and is free of charge for least and developing countries. FAO offers data longer back in time than Trade Map, but there are missing data for certain years for some countries. Both Trade Map data and FAO data present a certain degree of inconsistency but the discrepancies between imports and exports reported by the importers and exporters appear to be bigger for FAO than Trade Map data, hence Trade Map data was used.

Table 5 illustrates the discrepancies between import quantities and values and export quantities and values for the two different sources of trade data. For example, *fresh apples* (HS 080810) in 2006 have been reported by South Africa in export quantity and value of 1 612 tons and US\$ 795 thousand respectively. Zimbabwe the importing country reported different quantities and values for 2006. The quantity and the value reported by Zimbabwe were 1 584 tons and US\$ 826 thousand, respectively. The same situation is observed with FAO data with different level of discrepancies.

Table 5: FAO and Trade Map data comparison

| | | | | | Trade Map | | FAO | | |
|--------------|-------------------|-------------|------------------------------|------|-----------------|------------------------|-------------|-------------|------------------|
| Reported by | Country exporting | Destination | Product | Year | Quantity (tons) | Value (USD Thousands) | Quantity | Value | FAO Product code |
| South Africa | South Africa | Zimbabwe | <i>Fresh apples</i> (080810) | 2006 | 1612 | 795 | 1612 | 806 | 515 |
| Zimbabwe | South Africa | Zimbabwe | <i>Fresh apples</i> (080810) | 2006 | 1584 | 826 | no data | no data | 515 |
| South Africa | South Africa | Zambia | <i>Wheat</i> (1001) | 2007 | 13400 | 2228 | 4245 | 1329 | 15 |
| Zambia | South Africa | Zambia | <i>Wheat</i> (1001) | 2007 | 15560 | 3055 | 8090 | 3027 | 15 |
| South Africa | South Africa | Netherlands | <i>Bottled wine</i> (220410) | 2008 | 139 | 600 | 33697 | 69934 | 564 |
| Netherlands | South Africa | Netherlands | <i>Bottled wine</i> (220410) | 2008 | 178 | 662 | 29715 | 76550 | 564 |
| South Africa | South Africa | Mozambique | <i>Maize flour</i> (110220) | 2009 | 4121 | 1701 | 81055 | 19804 | 56 |
| Mozambique | South Africa | Mozambique | <i>Maize flour</i> (110220) | 2009 | 4396 | 2961 | not on list | not on list | 56 |
| South Africa | South Africa | Malawi | <i>Rice</i> (1006) | 2010 | 41 | 52 | not/av. | not/av. | |
| Malawi | South Africa | Malawi | <i>Rice</i> (1006) | 2010 | 28 | 55 | not/av. | not/av. | |
| South Africa | South Africa | UK | <i>Fresh apples</i> (080810) | 2011 | 85327 | 81534 | not/av. | not/av. | |
| UK | South Africa | UK | <i>Fresh apples</i> (080810) | 2011 | 80909 | 100823 | not/av. | not/av. | |

Source: Compiled with ITC (2012) and FAO (2012) data

The causes of inconsistency of trade data are numerous, but the main reasons are (ITC, 2012):

- ✚ Quantity measurements: there are countries that report gross weights and others report net weights.
- ✚ Interval of time: the differences may result if exports are registered in one year but the corresponding imports in the following year.
- ✚ There are countries that use special trade systems in which they exclude trade from free zones; others use the general trade system in which they include free zones.
- ✚ Sometimes misallocation of a partner country or product can occur for a reporting country. When this happens, it affects bilateral trade in the detail product levels, but not at aggregate level.
- ✚ Because of confidentiality products are sometimes classified as “not elsewhere specified (nes)”. It is only at detailed commodity levels that products’ confidentiality may affect the results, but it has no impact on aggregated bilateral trade statistics.

- ✚ Some countries take into account re-exports and/or transits, while the United Nations recommendations suggest that import records should be compiled by country of origin. Export data should be compiled by the last known destination and they should exclude goods in transit. Accurate data is not always available.
- ✚ Insurance and transportation costs are included in the value of imports (Cost Insurance Freight, CIF), while they are excluded from the export value (Free on Board, FOB). The international standards recommend that exports must be valued free on board and imports must be valued with cost of insurance and freight. Some countries don't follow this recommendation.

3.2 Product selection

Before screening the market, one must select a product or must have a product to screen the market for, hence product selection is done to obtain and maintain a number of products for market selection.

Product selection was done following the ITC method. This entailed calculating an Export Potential Index, which is a combination of the Export Performance Index and the World Import Performance Index as discussed in section 2.2 on the theory of the ITC Indices. The selection is made based on six digit HS code. One product can occupy different positions in these three indices (Export Performance Index, World Import Performance Index and Export Potential Index). The choice of one product can take into consideration all three indices and sometimes others indices in the matrix.

Initially there was a list of products identified that were of interest, namely: wines produced from fresh grapes, fresh vegetables and fresh fruits, dairy products and meat of bovine animals as well as cooking and frying oils. In order to formalise the process, to determine which product has the greatest export potential, the Export Potential Index was used. Some additional products were included in the list of products to determine markets for, because they ranked high on the Export Performance Index. Some of the original products of interest were retained purely because of the interest in them although they ranked very low in the Export Potential Index. Table 6 shows the index values for a few products although all agricultural and food products were included in the calculations. The selected products for further analysis are highlighted in table 6. These products were used for country-product combinations in section 3.4.

Table 6: Selected products and their indices

| HS code | Product label | Export Index | Trade balance 2011 (US\$ 000) | Trade Balance Index | Growth Index | Market share Index | Export Performance Index | Rank Export Performance Index | World Import Index | Rank World Import Index | Export Potential Index | Rank Export Potential Index |
|---------|---|--------------|-------------------------------|---------------------|--------------|--------------------|--------------------------|-------------------------------|--------------------|-------------------------|------------------------|-----------------------------|
| 100590 | Maize (corn) nes | 100.00 | 719088 | 100.00 | 100.00 | 71.43 | 92.86 | 3 | 80.87 | 8 | 86.86 | 1 |
| 080610 | Grapes, fresh | 100.00 | 420213 | 100.00 | 34.97 | 100.00 | 83.74 | 11 | 65.30 | 43 | 74.52 | 2 |
| 170199 | Refined sugar, in solid form, nes | 100.00 | 51535 | 100.00 | 34.97 | 17.14 | 63.03 | 44 | 83.51 | 3 | 73.27 | 3 |
| 170111 | Raw sugar, cane | 100.00 | 43131 | 100.00 | 27.97 | 14.29 | 60.56 | 49 | 85.36 | 1 | 72.96 | 4 |
| 080810 | Apples, fresh | 100.00 | 289025 | 100.00 | 32.87 | 100.00 | 83.22 | 13 | 61.06 | 47 | 72.14 | 5 |
| 120100 | Soya beans | 55.74 | 21306 | 74.24 | 100.00 | 0.00 | 57.50 | 55 | 84.82 | 2 | 71.16 | 6 |
| 220421 | Grape wines nes, incl fort&grape must,unfermtd by add alc in ctnr <= 2l | 100.00 | 491330 | 100.00 | 27.27 | 60.00 | 71.82 | 31 | 70.03 | 32 | 70.92 | 7 |
| 240220 | Cigarettes containing tobacco | 100.00 | 68675 | 100.00 | 37.06 | 14.29 | 62.84 | 45 | 78.44 | 11 | 70.64 | 8 |
| 210390 | Sauces & preparations nes & mixed condiments & mixed seasonings | 100.00 | 37828 | 100.00 | 45.45 | 22.86 | 67.08 | 37 | 68.64 | 36 | 67.86 | 9 |
| 220710 | Undenatd ethyl alcohol of an alcohol strgth by vol of 80% vol/higher | 100.00 | 78745 | 100.00 | 31.47 | 42.86 | 68.58 | 35 | 66.18 | 41 | 67.38 | 10 |
| 030429 | Frozen fish fillets (excl. swordfish and toothfish) | 100.00 | 95260 | 100.00 | 29.37 | 20.00 | 62.34 | 47 | 68.69 | 34 | 65.51 | 11 |
| 080510 | Oranges, fresh or dried | 100.00 | 588550 | 100.00 | 36.36 | 100.00 | 84.09 | 8 | 45.02 | 78 | 64.56 | 12 |
| 110100 | Wheat or meslin flour | 100.00 | 41916 | 100.00 | 100.00 | 28.57 | 82.14 | 16 | 46.84 | 74 | 64.49 | 13 |
| 030379 | Fish nes, frozen, excluding heading No 03.04, livers and roes | 100.00 | 41049 | 100.00 | 36.36 | 25.71 | 65.52 | 41 | 60.18 | 52 | 62.85 | 14 |
| 220429 | Grape wines nes, incl fort&grape must, unfermtd by add alc in ctnr > 2l | 100.00 | 221100 | 100.00 | 35.66 | 100.00 | 83.92 | 9 | 39.04 | 96 | 61.48 | 15 |
| 040221 | Milk and cream powder unsweetened exceeding 1.5% fat | 14.27 | -177 | 35.50 | 33.57 | 2.86 | 21.55 | 297 | 76.15 | 17 | 48.85 | 46 |
| 220410 | Grape wines, sparkling | 80.57 | 17727 | 67.79 | 47.55 | 17.14 | 53.26 | 67 | 42.64 | 83 | 47.95 | 51 |
| 020230 | Bovine cuts boneless, frozen | 12.45 | -17472 | 4.32 | 34.27 | 0.00 | 12.76 | 549 | 77.00 | 15 | 44.88 | 65 |
| 040210 | Milk powder not exceeding 1.5% fat | 23.08 | -10518 | 16.86 | 37.06 | 2.86 | 19.96 | 330 | 68.37 | 38 | 44.17 | 68 |
| 100190 | Wheat nes and meslin | 22.12 | -587092 | 0.00 | 10.49 | 0.00 | 8.15 | 650 | 76.37 | 16 | 42.26 | 81 |
| 100110 | Durum wheat | 0.00 | -46 | 35.74 | 0.00 | 0.00 | 8.93 | 635 | 74.98 | 19 | 41.96 | 84 |
| 151620 | Veg fats & oils & fractions hydrogenatd, inter/re-esterifid, etc | 17.60 | -15353 | 8.14 | 25.17 | 2.86 | 13.44 | 532 | 45.21 | 77 | 29.33 | 164 |
| 020220 | Bovine cuts bone in, frozen | 5.29 | -2714 | 30.93 | 30.07 | 8.57 | 18.72 | 357 | 28.92 | 159 | 23.82 | 252 |
| 040229 | Milk and cream powder sweetened exceeding 1.5% fat | 12.03 | 4275 | 43.53 | 39.86 | 31.43 | 31.71 | 154 | 10.57 | 560 | 21.14 | 315 |
| 020210 | Bovine carcasses and half carcasses, frozen | 0.07 | 32 | 35.88 | 34.97 | 0.00 | 17.73 | 389 | 19.92 | 308 | 18.83 | 381 |
| 220430 | Grape must nes, unfermented, other than that of heading No 20.09 | 0.22 | 91 | 35.99 | 0.00 | 2.86 | 9.77 | 608 | 3.79 | 696 | 6.78 | 660 |

Source: Own compilation with the computed composite indices in the matrix

A target market for any export product can be identified by means of indices in the computed Market Attractiveness Index. One may arbitrarily select an export product for which to determine a market, but it doesn't give a good idea of what the chosen product reflects as a share of the country's exports or world imports. That is why a method like the composite index becomes important to give a clearer picture of each product. It is important to note that the products taken into account to compute the Export Potential Index are agricultural and food products only. The ranking of indices for the Export Performance Index contains 665 selected products and the World Import Performance Index contains 722 selected products.

The difference between the number of products in the Export Performance Index and that of the World Import Performance Index can be justified by the fact that the world has greater product diversification than what South Africa has.

The aim of product selection is to get an indication of the demand for the product in the world compared with other products. Even if the product is not demanded in big quantities and/or values, one should get the picture of how it positions itself in the World Import Performance Index and in the Country Export Index. This is because some markets may be tiny but very good for particular products of interest. Once the product is selected, one must find the market where the product should be exported to; hence the use of the Market Attractiveness Index.

The Export Potential Index of selected products below is composed of two indices, namely the South Africa Export Performance Index and the World Import Performance Index. As mentioned above, the Export Potential Index is constructed in order to capture products' respective ranks. For example the *refined sugar* (HS 170199) is ranked 44th in the South Africa's Export Performance Index, 3rd in the World Import Performance Index and 3rd in the Export Potential Index. It is one of South Africa's main export products. The Export Index of 100 indicates that the demand of this product is important. For *frozen bovine carcasses and half carcasses* (HS 020210), South Africa exports a small value. It is seen in the Export Index of 0.07 and in the Export Performance Index of 17.73. This number has increased because of the Trade Balance Index and the Growth Index which are 35.88 and 34.97 respectively. It is ranked 389 out of 665 selected products in the Export Performance Index. As discussed above, the product is retained out of interest in meat exports and not because the product obtained a high ranking. This is also the case with *frozen bovine carcasses and half carcasses* (HS 020210) and it can be seen by its Growth Index of 34.97. The rank of *frozen bovine carcasses and half carcasses* (HS 020210) in the Export Potential Index is 381 out of 722 selected products. Products ranking in the first fifteen products in the Export Potential Index are the products most demanded. Table 6 provides selected products and their main indices. Selected products are those that are highlighted in the table.

Maize (HS 100590) appears first in the Export Potential Index with an index of 86.86. It is selected for country-product combinations discussed below. *Maize* (HS 100590) is the staple food in Africa with the greatest demand. *Maize* (HS 100590) is the third product in the Export Performance Index with the index of 92.86; however, it is the eighth in the World

Import Performance Index with the index of 80.87 and ranks first in the Export Potential Index with the index of 86.86.

Fresh grapes (HS 080610) are one of the main South Africa's exported products with a high positive trade balance of US\$ 420.21 million in 2011. Fresh grapes are ranked 11th in South Africa's Export Performance Index for agricultural and food products with an index of 83.74 and it is second in the Export Potential Index.

Refined sugar (HS 170199) is in high demand in the world. It is ranked 3rd in the World Import Performance Index with an index of 83.51. In terms of South Africa's Export Performance Index which is 63.03, it ranks the 44th. It ranks 3rd in the Export Potential Index. This is an indication that *refined sugar* (HS 170199) is in high demand.

Raw cane sugar (HS 170111) is the product with the greatest demand in the world according to the computed Export Potential Index. The World Import Performance Index of *raw cane sugar* (HS 170111) is 85.36 and it is ranked 1st. However, in South Africa's Export Performance Index it is ranked 49th with an index of 60.56. *Raw cane sugar* (HS 170111) comes just below *refined sugar* (HS 170199) in the Export Potential Index with the index of 72.96 and it is ranked 4th.

Fresh apples (HS 080810) are one of South Africa's greatest exported fresh fruits. It is ranked 13th in South Africa's Export Performance Index for agricultural and food products with the index of 83.22. In the World Import Performance Index it is ranked 47th with the index of 61.06. On average, it is ranked 5th in the Export Potential Index with the index of 72.14.

Soya beans (HS 120100) have a relatively high Export Potential Index of 71.16 and it ranks 6th. Its Trade Balance Index and Export Growth Index are very promising, namely 74.24 and 100 respectively.

Wine in containers <=2l (HS 220421) (i.e. bottled wine) ranks 31st in South Africa's Export Performance Index with 71.82. *Wine in containers <=2l* (HS 220421) is an important export product. Its Export Potential Index is 70.92 and it is ranked 7th. In 2011 the trade balance of *wine in containers <=2l* (HS 220421) was US\$ 491.33 million and scores the maximum Trade Balance Index which is 100.

Fresh or dried oranges (HS 080510) are 3rd in the sector of fruits in terms of Export Potential Index after *fresh grapes* (HS 080610) and *fresh apples* (HS 080810), however it ranks 12th for all agricultural and food products. South Africa's Export Performance Index for *fresh or dried oranges* (HS 080510) is 84.09 and it ranks 8th. The Export Index of 100 further confirms that it is important in export magnitude.

Wheat or meslin flour (HS 110100) is 16th South Africa's exported product with the Export Performance Index of 82.14. Its World Import Performance Index is 46.84 and ranks 74th. *Wheat or meslin flour* (HS 110100) gives very good indication for exports with 100 as Export Index. It is ranked 13th in the Export Potential Index and scores 64.49. South Africa is a net exporter of *wheat or meslin flour* (HS 110100), and its Trade Balance Index is the maximum of 100. It was US\$ 41.92 million in 2011 and US\$ 50.87 million in 2012.

Wine in containers >2l (HS 220429) (i.e. bulk wine). This wine is 9th in South Africa's Export Performance Index with an index of 83.92. It also has a high Market Share Index of 100. It is the last in the first fifteen ranked products in the Export Potential Index with a large positive trade balance of US\$ 221.10 million in 2011 and it scores 100 in the Trade Balance Index. Therefore *wine in containers >2l* (HS 220429) is very promising in terms of world demand.

Sparkling wine (HS 220410) is not among the first fifteenth products in the Export Potential Index. Its Export Potential Index is 47.95 and it is ranked 51st. In South Africa's Export Performance Index it is ranked 67th with the index of 53.26. *Sparkling wine* (HS 220410) shows a positive trade balance of US\$ 17.73 million in 2011. In South Africa's wine sector, *sparkling wine* (HS 220410) scores the 3rd highest Export Potential Index, after bottled and bulk wines. This product is retained for comparison with bottled and bulk wines.

Not all first fifteen products that appear in the Export Potential Index are selected for country-product combinations. Even if a product does not have a good export potential, if it is currently produced in South Africa it is possible to determine the target markets for the product. Companies that are already producing a good or a product has to export its good or product if the domestic market demand is satisfied to maintain itself competitively. Seasonality can also justify this argument. That is why some products such as: *frozen bovine cuts* (HS 020220), *frozen bovine carcasses and half carcasses* (HS 020210) and *sweetened milk powder* (HS 040229) are included for market selection even though they have low scores in terms of indices. Dairy and meat products were part of the original list of products of

interest and hence the decision was made to determine the target markets for these products although they do not currently show great export potential.

Frozen bovine cuts (HS 020220) had a negative trade balance in 2011 as indicated in table 6, but it was positive from 2001 to 2010 with sharp decrease from 2004 to 2006 as can be seen in figure 20 in section 3.3.9.

Sweetened milk powder (HS 040229) is one of the dairy products that are most exported by South Africa. Its South African Export performance Index is 31.71 and it ranks 154th. Its Export Index is 12.03 and its Export Potential Index is 21.14 and it ranks 315th.

Frozen bovine carcasses and half carcasses (HS 020210) have an Export Potential Index of 18.83 and ranks 381st. As opposed to *frozen bovine cuts* (HS 020220), *frozen bovine carcasses and half carcasses* (HS 020210) had a positive trade balance in 2011 with a very small Export Index of 0.07.

Now that products are selected, they should be combined with countries with the highest Market Attractiveness Index in the region (SADC), i.e. identify the country-product combinations. First a glance at production and trade trend will give a general understanding of the selected products in South Africa.

3.3 Production and trade trends

3.3.1 Maize production and trade trend

South Africa's total maize crop is estimated at 12.1 million tons. South Africa exported about 2.0 million tons of maize in 2011. It is expected that South Africa will continue to be a net exporter of maize, for both white and yellow maize products. South African export destinations of maize are mainly: Botswana, Ghana, Iran, Italy, Japan, Korea, Kuwait, Lesotho, Madagascar, Mexico, Mozambique, Namibia, Senegal, Somalia, Swaziland, Taiwan and Venezuela (Esterhuizen, 2012). South Africa remains a net exporter of *maize* (HS 100590) products as illustrated in figure 5.

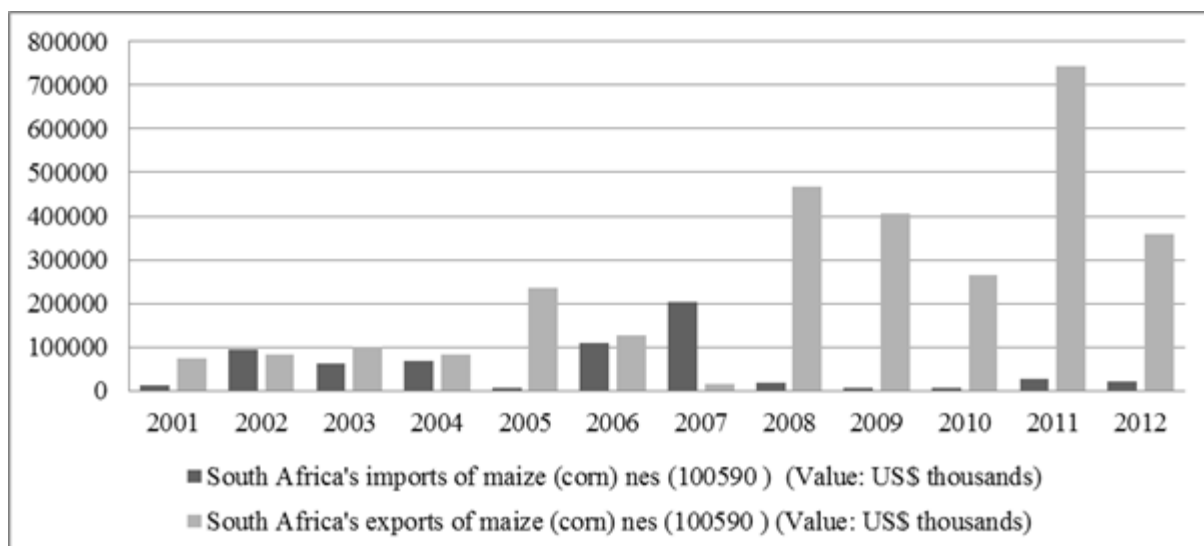


Figure 5: South Africa's exports and imports of *maize* (HS 100590) from 2001 to 2012

Source: Own compilation with ITC (2013) data.

3.3.2 Fresh grapes production and trade trend

In 2010, as indicated by SA's Department of Agriculture, Forestry and Fishery (2011) fresh grapes and dry grapes contributed 31%, i.e. 23 532 ha out of a total of 75 025 ha planted for deciduous fruits. Exports of fresh grapes increased gradually from US\$ 314.29 million in 2008 to US\$ 431.15 million in 2012 as indicated in figure 6. In terms of export growth rate, it was 8% between 2008 and 2012 (ITC, 2013).

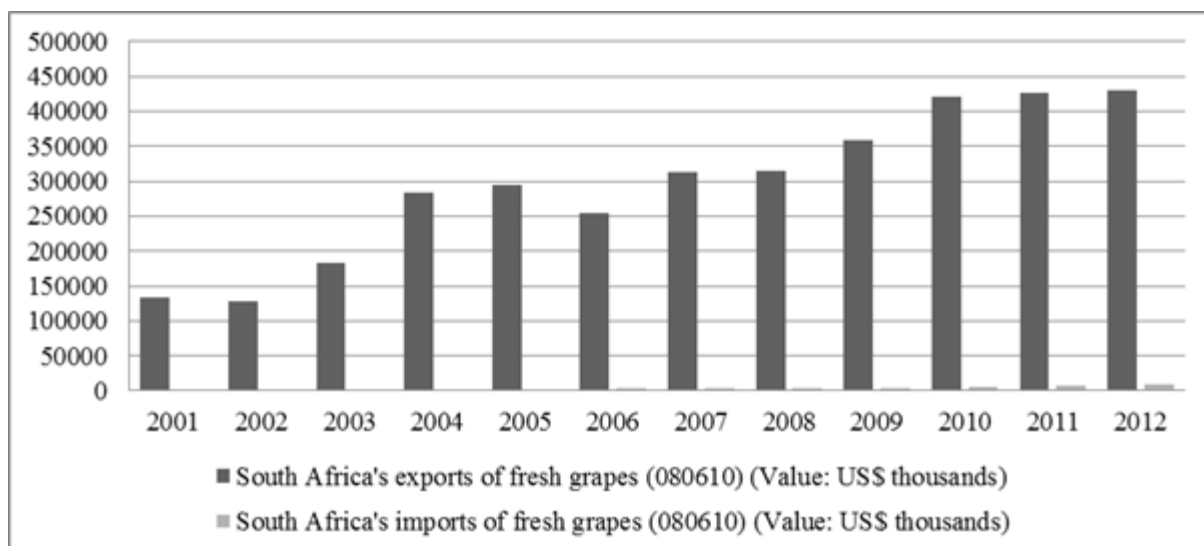


Figure 6: South Africa's exports and imports of *fresh grapes* (HS 080610) from 2001 to 2012

Source: Own compilation with ITC (2013) data.

3.3.3 Sugar production and trade trend

On average, 70% of the global sugar production is a result of sugar cane. Sugar is produced for human consumption and in some cases for ethanol. In South Africa, sugar is mainly produced in KwaZulu-Natal, in Mpumalanga and with some farming activities in the Eastern Cape. There are more than 29 000 producers in the above mentioned regions. South Africa ranks the 11th largest sugar producer in the world. Roughly 2.2 million tons of commercial sugar is produced each season. About 60% of exported sugar goes to SACU, with the rest going mainly to Africa, the Middle East and Asia (Syngenta, 2012).

South Africa's exports of *refined sugar* (HS 170199) are significant, as can be seen by the high Trade Balance Index of 100. Figure 7 illustrates South Africa exports and imports of *refined sugar* (HS 170199). One can notice the general positive export trend from 2001 to 2012; however fluctuations can be also noticed over the same period. South Africa's export growth rate in value between 2008 and 2012 was 4% even if there was a noticeable decrease in 2011 (ITC, 2013). South Africa remains a net exporter of *refined sugar* (HS 170199).

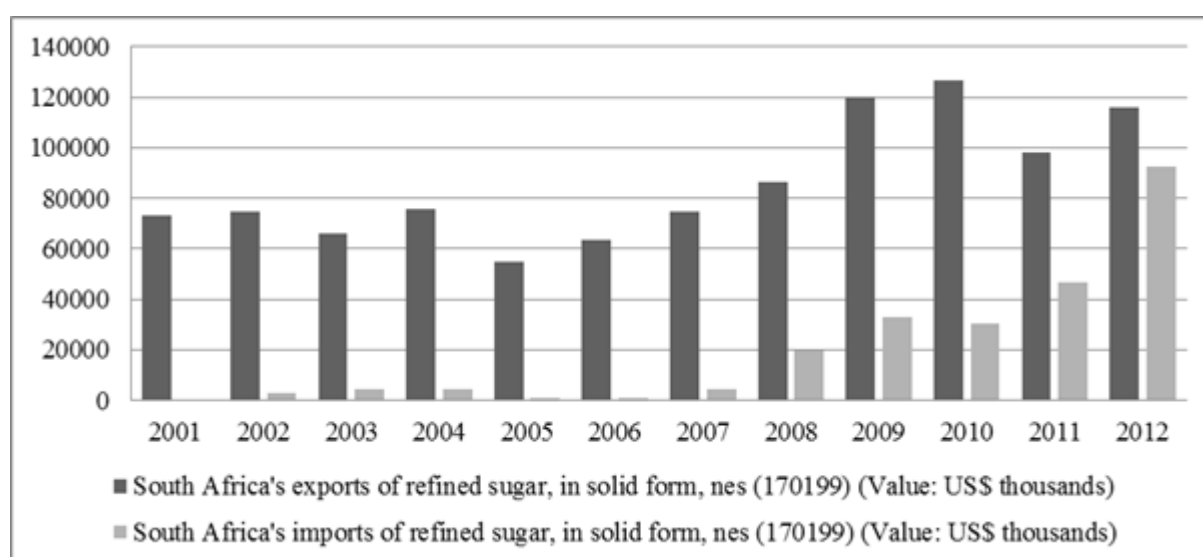


Figure 7: South Africa's exports and imports of *refined sugar* (HS 170199) from 2001 to 2012

Source: Own compilation with ITC (2013) data.

South Africa's exports of *raw cane sugar* (HS 170111) showed fluctuations in recent years as illustrated in figure 8. There has been a negative trend in exports from US\$ 245.59 million in 2009 to US\$ 96.47 million in 2011 in South Africa's exports of *raw cane sugar* (HS 170111). In terms of growth, SA export growth rate of *raw cane sugar* (HS 170111) in value between 2008 and 2012 was negative at -19%. Nevertheless, South Africa remains a net exporter of

raw cane sugar (HS 170111) with a positive trade balance of US\$ 43.131 million in 2011. The Trade Balance Index is 100.

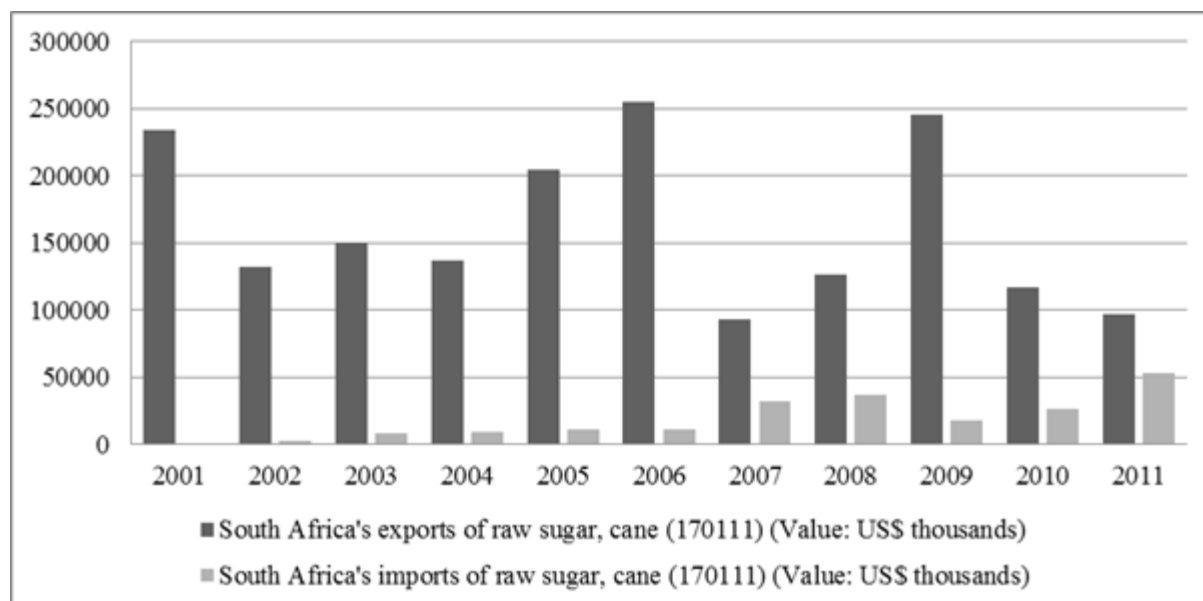


Figure 8: South Africa's exports and imports of *raw cane sugar* (HS 170111) from 2001 to 2011

Source: Own compilation with ITC (2013) data.

3.3.4 Fresh apples production and trade trend

Apples are one of South Africa's top agricultural commodities in terms of production. Red and green cultivars are produced. The main apple cultivars in South Africa are: Granny Smith (22% of planted hectares), Golden Delicious (22% of planted hectares), Royal Gala (13% of planted hectares), Pink Lady (9% of planted hectares), Fuji (6% of planted hectares) and Topred (5% of planted hectares). Apple production in South Africa is mainly for the export market, as well as local consumption and processing (DAFF, 2011).

During the period 2009 and 2010 38% of apples was exported, 29% was processed, 32% was sold in the local market, only 0.13% was dried. Total production in 2009-2010 was more or less estimated at 800 000 tons. Apple production in South Africa has experienced slight fluctuations over the years. This is partly caused by the country's uneven seasons and other factors such as water shortages and the marketing environment. Figure 9 illustrates the production of apples from 2000 to 2010.

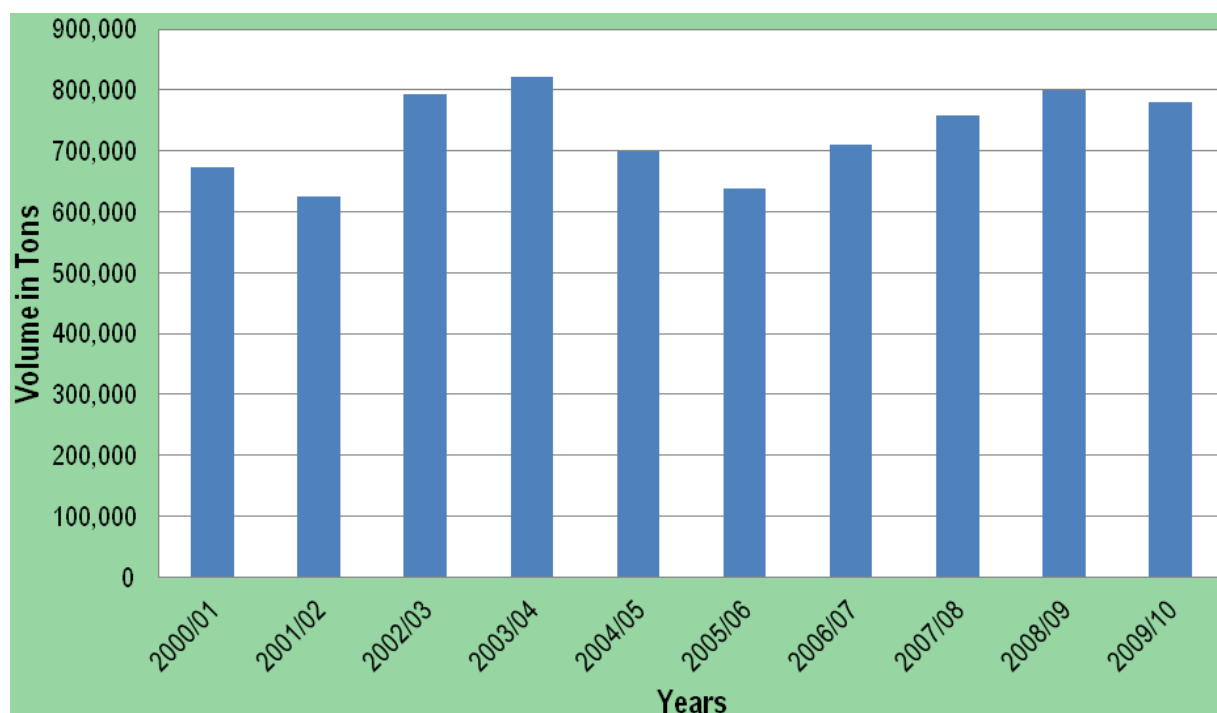


Figure 9: Total production of *apples*, 2000/01-2009/10

Source: DAFF (2011)

There has been a gradual increase in SA's exports of *fresh apples* (HS 080810) from 2009 to 2012 as shown in figure 10.

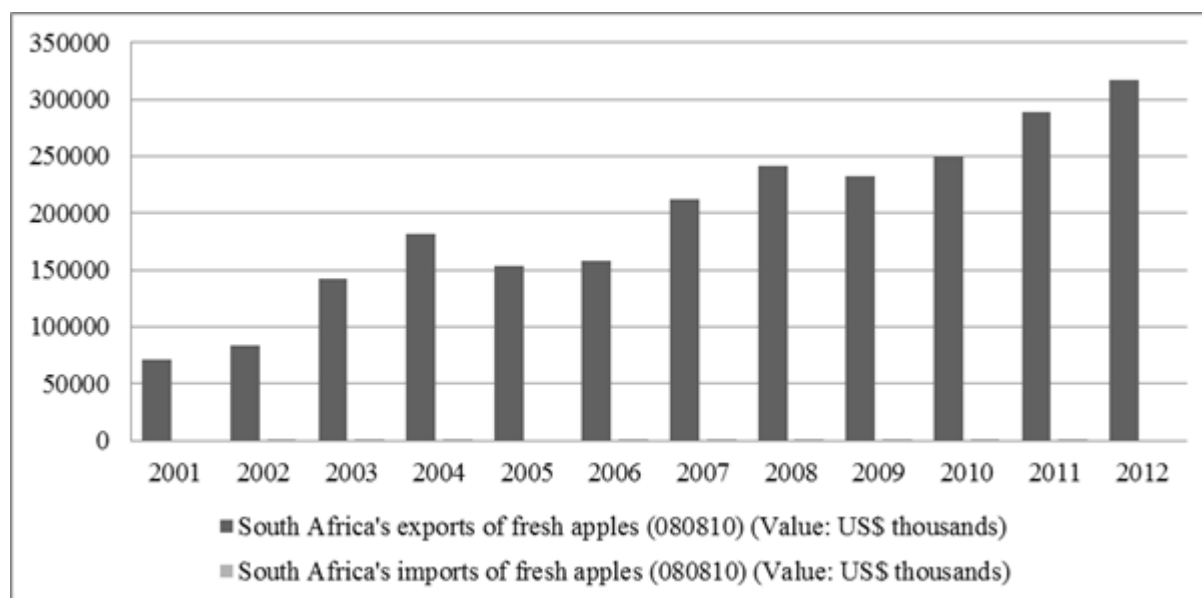


Figure 10: South Africa's exports and imports of *fresh apples* (HS 080810) from 2003 to 2012

Source: Own compilation with ITC (2013) data.

3.3.5 Soya beans production and trade trend

In South Africa, Mpumalanga province produces the biggest quantity of soya beans. In 2011 it produced roughly 42% of total soya beans in South Africa. The second largest producing province is the Free State that accounted for roughly 27% of total production of soya beans in 2011. During the same period KwaZulu-Natal contributed 13%, Limpopo 8%, North-West 7% and Gauteng 3%. The Eastern Cape, Northern Cape and the Western Cape each contributed less than 1% (DAFF, 2012). Soya beans production during the 2010 to 2011 season was roughly 25.44% higher than production during 2001 to 2002 season. This increase in production was caused by higher plantings and improved yields on surface (DAFF, 2012). Soya beans export volumes are less than the volume of soya beans consumed domestically. Figure 11 illustrates local sales and export quantities. From 2009 to 2011 the decrease in exports may be explained partly by the increased in local sales and/or consumption.

Soya beans are also used as raw material in the South African industry of vegetable oils. In 2010 the main vegetable oil and fat finished products and exported by South Africa were sunflower extracts, soya-bean extracts and margarine. Exports of these products were destined mainly for Zimbabwe, Mozambique and Zambia (DAFF, 2011).



Figure 11: South Africa's *soya beans* local sales versus exports from 2002 to 2011

Source: DAFF (2012)

The export value decreased from US\$ 67.89 million in 2009 to US\$ 22.29 million in 2011 as showed in figure 12. Nevertheless, South Africa remains a net exporter of soya beans with a positive trade balance of US\$ 21.30 million in 2011 (ITC, 2013).

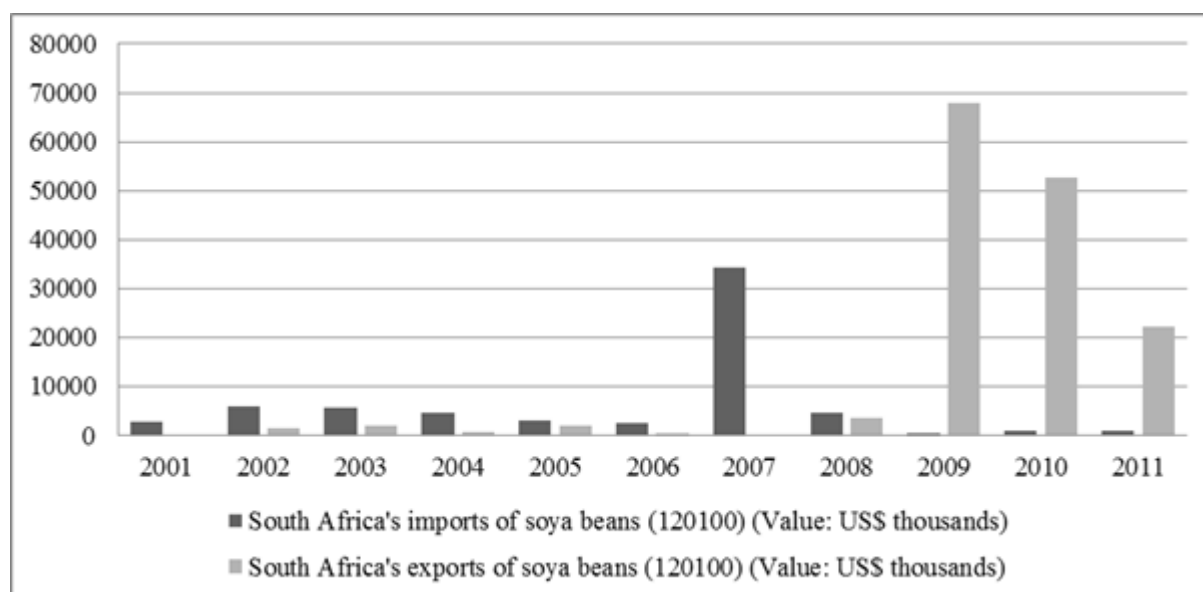


Figure 12: South Africa's exports and imports of *soya beans* (HS 120100) from 2001 to 2011

Source: Own compilation with ITC (2013) data

3.3.6 Wine production and trade trend

In South Africa, 100 568 hectares are used to grow vines producing wine grapes. Both white and red varietals are grown. They contributed 55.6% and 44.4% to the national vineyard respectively. South Africa produces different ranges of wine products. The distribution of production was 35.6% and 64.4% for red and white wine respectively in 2012 (SAWIS, 2013). The wine industry contributed more or less R 26.2 billion in 2008 to gross domestic product and the estimation of wine GDP annual growth is of 10% since 2003 (SAWIS, 2010). In the world exports, South Africa occupied the 8th position and produced roughly 3.8% of the world production volume in 2011. South Africa makes mainly wine for drinking, wine for brandy, distilling wine, grape juice concentrate and grape juice.

Table 7: Growth in wineries

| Years | Number of primary wine producers | Number of wine cellars which crush grapes | Producer cellars | Producing wholesalers |
|-------|----------------------------------|---|------------------|-----------------------|
| 1991 | 4786 | 212 | 70 | 6 |
| 2002 | 4346 | 427 | 66 | 11 |
| 2005 | 4360 | 581 | 65 | 21 |
| 2006 | 4183 | 572 | 65 | 17 |

| | | | | |
|------|------|-----|----|----|
| 2007 | 3999 | 560 | 59 | 20 |
| 2008 | 3839 | 585 | 58 | 23 |
| 2009 | 3667 | 604 | 57 | 23 |
| 2010 | 3596 | 573 | 54 | 26 |
| 2011 | 3527 | 582 | 52 | 25 |

Source: Wines of South Africa (2012)

Table 8: Wine produced (million gross litres)

| Years | Wine | Rebate | Juice | Distilling wine |
|-------|-------|--------|-------|-----------------|
| 2005 | 628.5 | 82.9 | 64.6 | 129.2 |
| 2006 | 709.7 | 82.1 | 73.2 | 147.9 |
| 2007 | 730.4 | 101.5 | 65.2 | 146.4 |
| 2008 | 763.3 | 86.6 | 72.5 | 166.5 |
| 2009 | 805.1 | 71.4 | 34.7 | 122.1 |
| 2010 | 780.7 | 39.6 | 51.2 | 113.3 |
| 2011 | 831.2 | 34.2 | 40.2 | 107.2 |

Source: Wines of South Africa (2012)

Uren (2012) indicated that there has been a noticeable growth in South Africa's exports of wine from 2001 to 2011. Figure 13 shows South Africa's exports and imports of wine of fresh grapes. Exports show a slight decrease from US\$783.14 million in 2010 to US\$730.34 million in 2012.

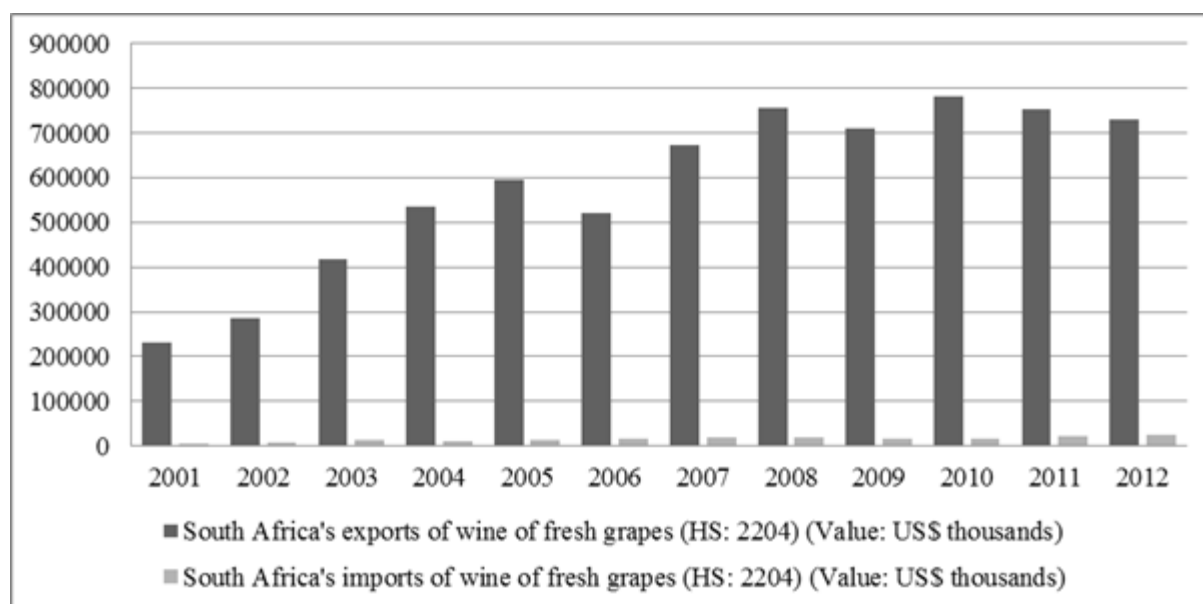


Figure 13: South Africa's exports and imports of *wine of fresh grapes* (HS 2204) from 2001 to 2012

Source: Own compilation with ITC (2013) data.

For *wine in containers* $\leq 2l$ (HS 220421) or bottled wine, the general trend is that exports have increased significantly from 2001 to 2012 with fluctuations from 2006 to 2012. The export growth rate of wine over the past 5 years (i.e. from 2008 to 2012) was negative at -5%. It went US\$ 552.36 million in 2008 to US\$ 443.48 million in 2012 (ITC, 2013). However the trade balance is still positive as indicated in figure 14.

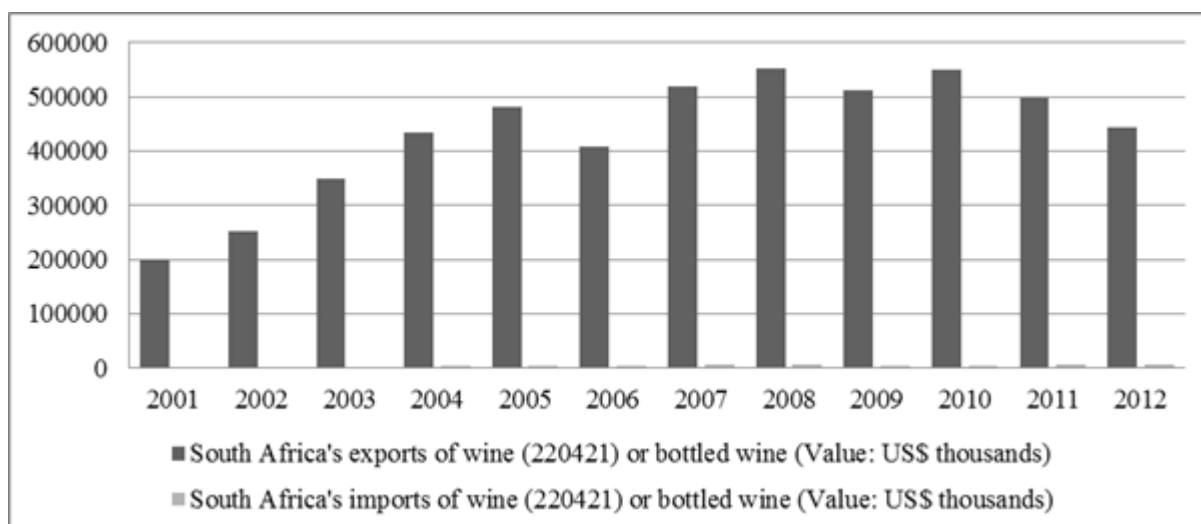


Figure 14: South Africa's exports and imports of *bottled wine* (HS 220421) from 2001 to 2012

Source: Own compilation with ITC (2013) data.

Figure 15 illustrates exports and imports of *wine in containers* $> 2l$ (HS 220429) (i.e. bulk wine) since 2001 up to 2012. *Wine in containers* $> 2l$ (HS 220429) has shown a significant export growth rate of 9% over the past five years (i.e. from 2008 to 2012) from US\$ 186.22 million in 2008 to US\$ 252.78 million in 2012 (ITC, 2013).

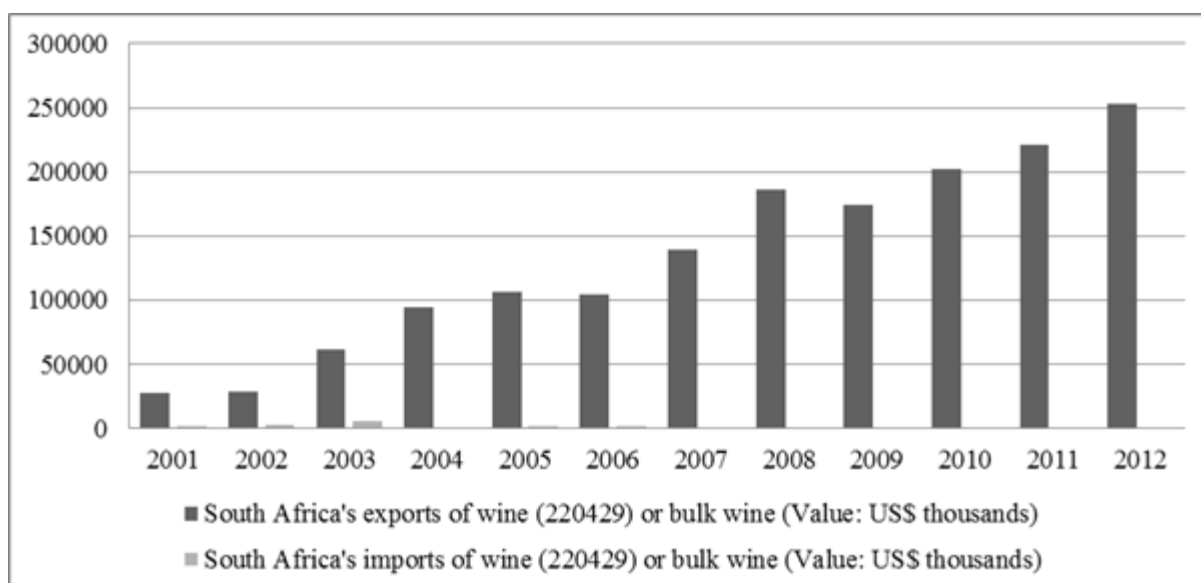


Figure 15: South Africa's exports and imports *bulk wine* (HS 220429) from 2001 to 2012

Source: Own compilation with ITC (2013) data.

Figure 16 illustrates South Africa's exports and imports of *sparkling wine* (HS 220410) since 2001 to 2012. There was a noticeable gradual positive export growth trend from 2001 to 2012. The growth rate over five years (i.e. from 2008 to 2012) was 17% from US\$ 17.95 million in 2008 to US\$ 33.98 million in 2012 (ITC, 2013)

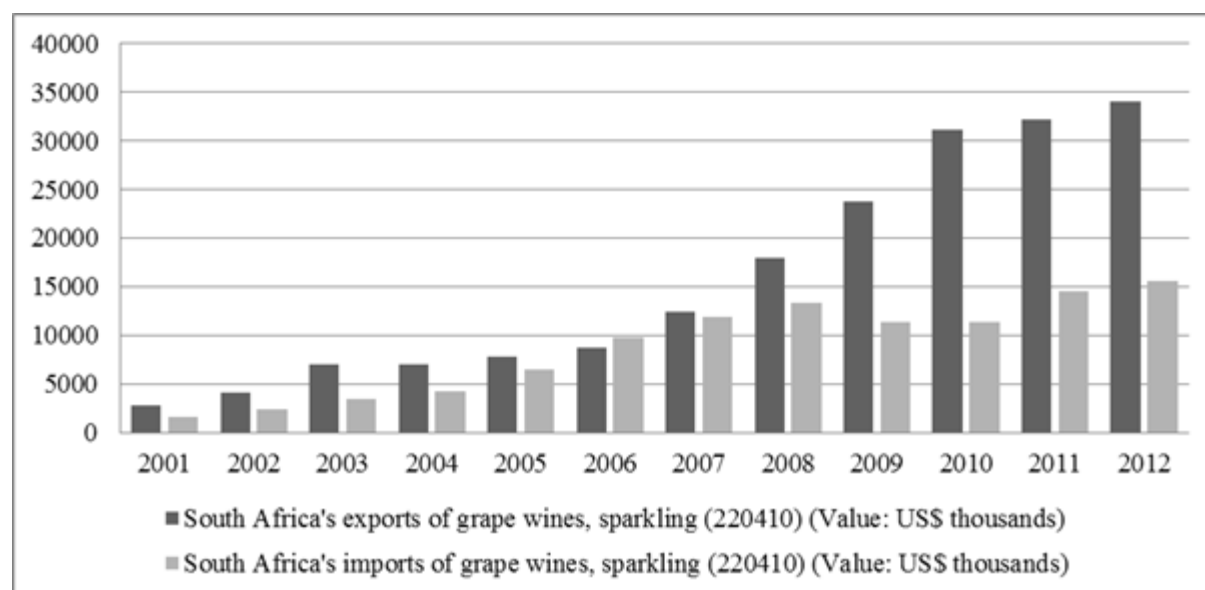


Figure 16: South Africa's exports and imports of *sparkling wine* (HS 220410) from 2001 to 2012

Source: Own compilation with ITC (2013) data.

3.3.7 Oranges production and trade trend

Oranges are one of the most important fruits produced in South Africa in value and in volume (DAFF, 2011). In 2010 oranges contributed roughly 67 % of total citrus production in South Africa (DAFF, 2011). As indicated in figure 17, oranges are by far the most important citrus fruit produced in South Africa. Citrus production occurs in Limpopo (with 31 % of total SA's production areas of citrus plantations), Western Cape (16 %), Mpumalanga (21 %), Eastern Cape (21 %) as well as Kwazulu-Natal (7 %) (DAFF, 2011).

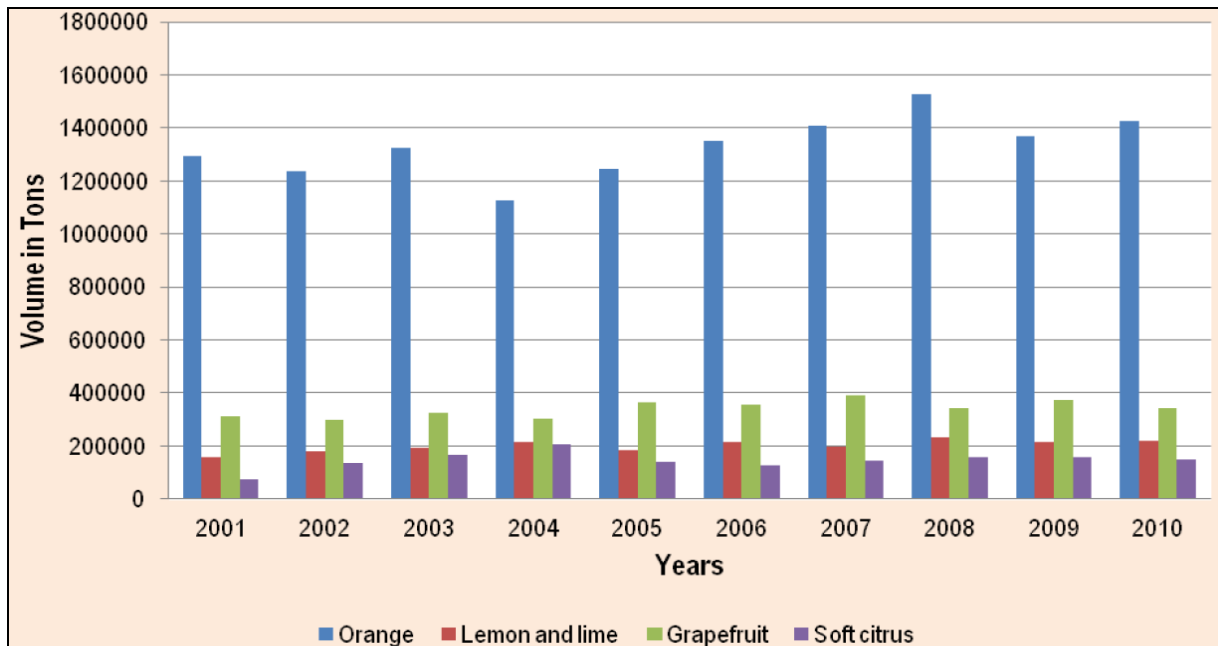


Figure 17: Total production of citrus products from 2001 to 2010

Source: DAFF (2011)

Figure 18 illustrates South Africa's exports and imports of *fresh or dried oranges* (HS 080510) from 2001 to 2012. Exports have increased gradually with slight fluctuations. South Africa's export growth rate over five years (from 2008 to 2012) was 10% from US\$ 433.44 million in 2008 to US\$ 583.70 million in 2012 (ITC, 2013).

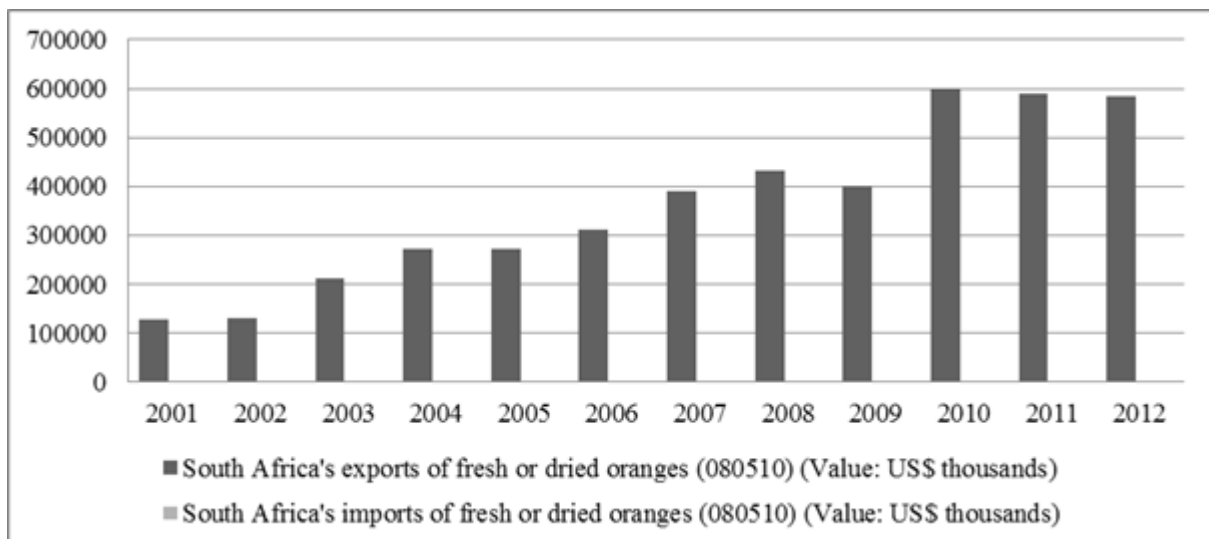


Figure 18: South Africa's exports of *fresh or dried oranges* (HS 080510) from 2001 to 2012

Source: Own compilation with ITC (2013) data.

3.3.8 Wheat flour production and trade trend

The production of wheat in South Africa is important, but South Africa has not traditionally been a wheat exporting country. In contribution to agricultural GDP, wheat is the second most important grain crop in South Africa after maize. During the period 2009 to 2010, wheat contributed roughly 11% to the gross value of field crops (DAFF, 2011). South Africa is the largest wheat producer in SADC region. In Africa it is the 4th largest producer. In the world, South Africa ranks 37th and China ranks first (DAFF, 2012).

Table 9: SA wheat production, surface planted and yield (2006-2010)

| Years | Surface planted (ha) | Production (t) | Yield (t/ha) |
|-------|----------------------|----------------|--------------|
| 2006 | 764 800 | 2 105 000 | 2,75 |
| 2007 | 632 000 | 1 905 000 | 3,01 |
| 2008 | 748 000 | 2 130 000 | 2,85 |
| 2009 | 642 500 | 1 958 000 | 3,05 |
| 2010 | 558 100 | 1 637 220 | 2,93 |

Source: DAFF (2011)

In terms wheat flour, 33 out of 103 mills produce roughly 97% of South Africa's wheat flour. The wheat milling industry produces nearly 2 million tons of wheat flour annually (DAFF, 2006). Wheat flour produced includes: brown bread flour, whole-wheat flour, white bread flour, cake flour, self-rising flour as well as industrial flour. Nearly 60 percent of total quantity of wheat flour and meal is utilised for bread production (DAFF, 2012). South Africa's wheat flour export destinations are mainly: the DR Congo, Zambia, Zimbabwe and Mozambique (DAFF, 2012).

Export growth rate over five years (i.e. from 2008 to 2012) was 52 %, from US\$ 9.68 million in 2008 to US\$ 55.28 million in 2012 (ITC, 2013).

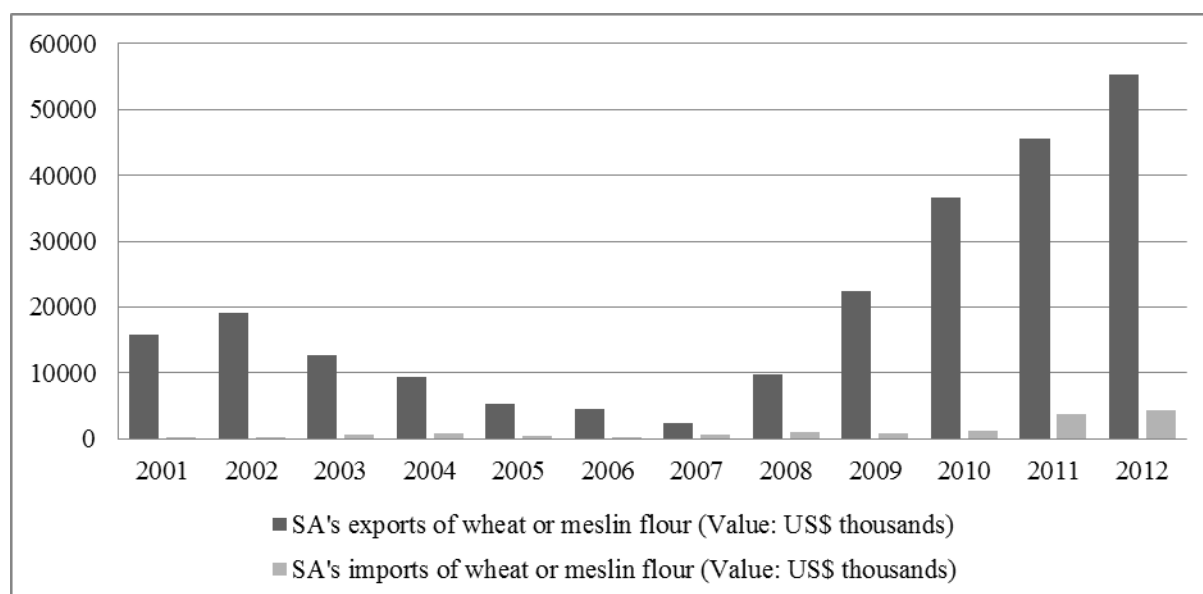


Figure 19: South Africa's exports and imports of *wheat or meslin flour* (HS 110100) from 2001 to 2012

Source: Own compilation with ITC (2013) data.

3.3.9 Meat of bovine animal production and trade trend

Gauteng is the province that exports most meat, but Mpumalanga is the province with the highest level of production, accounting for about 22% of beef production in South Africa. Beef is produced throughout South Africa in different provinces (Mpumalanga 22%, Free State 19%, Gauteng 13%, North West 12%, Kwazulu-Natal 11%, Eastern Cape 6%, Northern Cape 6%, Limpopo 6% and Western Cape 5% (DAFF, 2011).

Table 10: South African beef production and consumption

| Year | Cattle Slaughtering | Production | Consumption |
|---------|---------------------|------------|-------------|
| | Heads | Tons | Tons |
| 2000/01 | 2,302,000 | 525,000 | 554,000 |
| 2001/02 | 2,510,000 | 574,000 | 602,000 |
| 2002/03 | 2,535,000 | 610,000 | 643,000 |
| 2003/04 | 2,599,000 | 632,000 | 675,000 |
| 2004/05 | 2,671,000 | 672,000 | 723,000 |
| 2005/06 | 2,972,000 | 769,500 | 810,000 |
| 2006/07 | 3,077,000 | 830,700 | 849,000 |
| 2007/08 | 2,781,000 | 750,600 | 767,000 |
| 2008/09 | 2,910,000 | 787,800 | 791,000 |
| 2009/10 | 2,891,000 | 835,200 | 853,000 |

Source: DAFF (2011)

From table 10 on production and consumption, it can be seen that South Africa is not a self-sufficient in beef, but still exports it to different regions. Generally, South Africa is a net importer of beef. There was an exception in 2001, 2002 and 2003. From 2004 to 2007 South Africa was a net importer of beef, but from 2008 to 2010 as well as in 2012 it was a net exporter of meat of bovine animals with an export value of US\$ 24.20 million versus an import value of US\$ 21.07 million in 2012. In 2012, as it is shown in figure 20, exports were greater than imports, and it could probably be due to the weaker South African currency (Rand) during that period.

Most of those exports were destined for the European Union and Asia. In 2010 South Africa exported 3.99 million kilograms of beef evaluated at R 156 million. South Africa exports mainly to Africa (especially to SADC) as well as to the European Union. During the period 2001 to 2004 South Africa exported more to the European Union, but during the period 2005 to 2010, it exported more to Africa (DAFF, 2011).

As it can be seen in figure 20 that from 2008 to 2012, exports of *frozen bovine cuts* (HS 020220) have grown at a small basis of 4% (ITC). The Export Index of *frozen bovine cuts* (HS 020220) is positive, it is 5.29. In the Export Potential Index it ranks 252nd with the index of 23.82 as was shown in table 6.

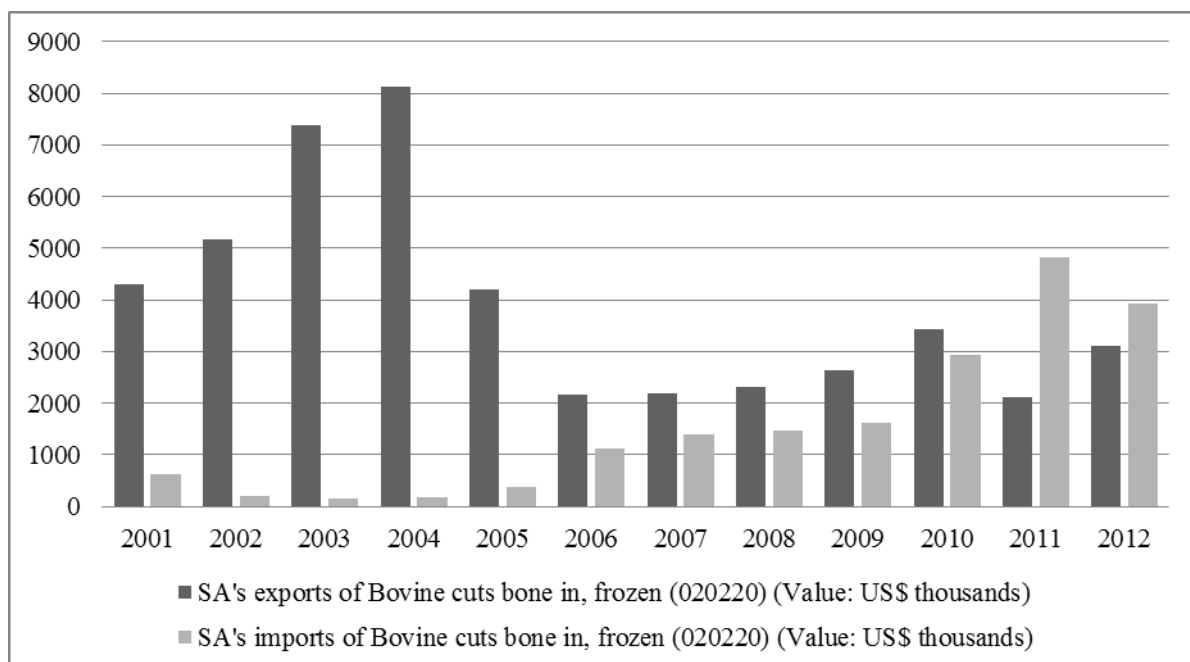


Figure 20: South Africa's exports and imports of *frozen bovine cuts* (HS 020220) from 2001 to 2012

Source: Own compilation with ITC (2013) data.

South Africa's exports of *frozen bovine carcasses and half carcasses* (HS 020210) are very erratic, but remain positive as indicated in figure 21.

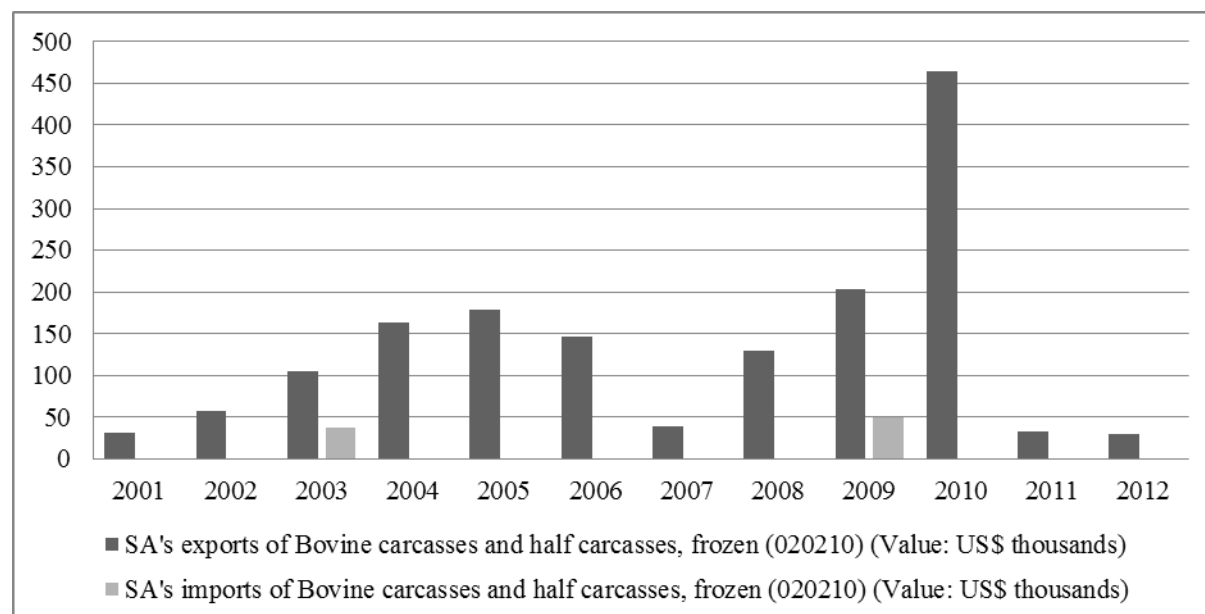


Figure 21: South Africa's exports and imports of *frozen bovine carcasses and half carcasses* (HS 020210) from 2001 to 2012

Source: Own compilation with ITC (2013) data.

3.3.10 Milk powder production and trade trend

South Africa global contribution of milk production is roughly 0.5 % (DAFF, 2012). In South Africa, milk is produced mostly in the Western Cape (amounting roughly 27% of total milk produced in the country); it is followed by Eastern Cape and Kwazulu-Natal in which both produce 24%, for each of them. North-West produces 5%, Mpumalanga 4%, Gauteng 3%. In Limpopo and Northern Cape very small quantity is produced meaning less than 1%.

Milk produced in South Africa is divided in 60% liquid and 40% concentrated products. In terms of differentiation, condensed milk products represent 38% of hard and semi cheese, milk powder products represent 19%, other cheese 16%. Condensed milk and buttermilk powder products represent altogether 8% of South Africa's milk products (DAFF, 2012). Milk produced in South Africa makes a very small contribution to the world production; nevertheless, it makes important revenues in agricultural sector within the country, it is the fifth largest agricultural industry in South Africa (DAFF, 2011). New Zealand for example produces milk at lower opportunity cost than South Africa; this is one of the reasons why milk from that country might be cheaper than the one produced within the country (DAFF, 2011).

Despite the fact that there are notable fluctuations as shown in figure 22, South Africa remains a net exporter of *sweetened milk powder* (HS 040229), however the export growth rate has been negative over five years (i.e. from 2008 to 2012) at -8%. It went from US\$ 6.17 million in 2008 to US\$ 5.17 million in 2012 (ITC, 2013).

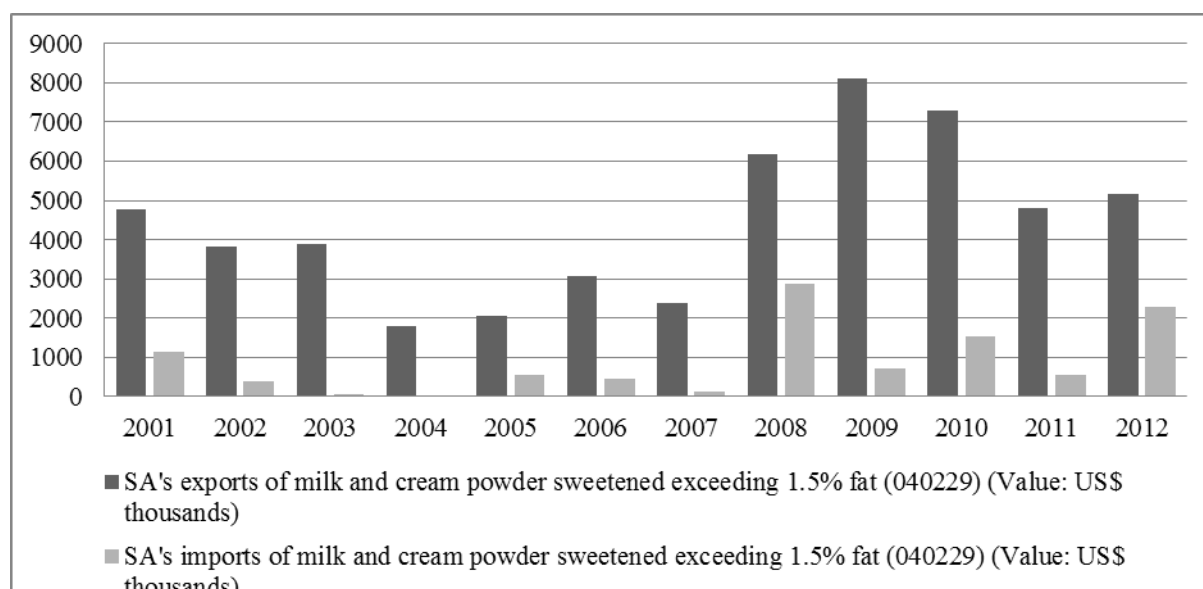


Figure 22: South Africa's exports and imports of *sweetened milk powder* (HS 040229) from 2001 to 2012

Source: Own compilation with ITC (2013) data

3.4 Country-product combinations

To select the market for a particular selected product, the Market Attractiveness Index discussed in section 2.2 on the theory of the ITC Indices is used. The Market Attractiveness Index (MAI) is a tool to help select export markets. It is useful for trade support to provide advice in the market selection for products of interest. A large number of possible markets is put together to find markets that combine attractive characteristics such as size, growth, and market access. The first country in the MAI sorted from the largest to smallest has been considered and chosen for country-product combination for further studies. One can still choose another country according to different indices. In this study the most important index constructed based on other factors on which the choice is made is the Market Attractiveness Index (MAI).

Both the Market Attractiveness Index (MAI) and the Export Potential Index (EPI) utilise historical data. One should bear in mind that the market may or may not have been targeted by the exporting country in the past.

3.4.1 Selecting Target Market: *maize* (HS 100590)

Maize (HS 100590): Mauritius is first in the Market Attractiveness Index with the index of 66.87. It is followed by Mozambique and Angola with somewhat lower MAI values. There are no tariff preference differences between the first three countries.

Table 11: MAI *maize* (HS 100590)

| Importers | Market Attractiveness Index | Market Access Index | Tariff Preference Margin Index | Tariff Preference Margin Advantage/ Disadvantage for South Africa | Country Demand Index | Index Import Growth | Index Average Annual Import Value |
|----------------------------------|-----------------------------|---------------------|--------------------------------|---|----------------------|---------------------|-----------------------------------|
| Mauritius | 66.87 | 89.46 | 80.23 | 0.00 | 44.28 | 63.78 | 69.43 |
| Mozambique | 57.42 | 63.93 | 80.23 | 0.00 | 50.92 | 80.12 | 63.55 |
| Angola | 54.95 | 78.95 | 80.23 | 0.00 | 30.95 | 74.96 | 41.29 |
| Zimbabwe | 53.84 | 61.49 | 80.23 | 0.00 | 46.19 | 46.19 | 100.00 |
| Zambia | 44.35 | 63.36 | 80.23 | 0.00 | 25.33 | 78.64 | 32.21 |
| Democratic Republic of the Congo | 42.76 | 83.16 | 80.23 | 0.00 | 2.37 | 10.34 | 22.89 |
| Madagascar | 37.53 | 63.51 | 100.00 | 0.05 | 11.56 | 70.66 | 16.35 |
| Malawi | 33.60 | 56.70 | 80.23 | 0.00 | 10.50 | 29.06 | 36.15 |
| Namibia | 31.97 | 33.44 | 80.23 | 0.00 | 30.51 | 52.61 | 57.99 |
| United Republic of Tanzania | 29.18 | 58.35 | 0.00 | -0.20 | 0.00 | 0.00 | 8.29 |
| Botswana | 29.05 | 30.42 | 80.23 | 0.00 | 27.68 | 55.44 | 49.93 |
| Seychelles | 27.44 | 54.89 | 80.23 | 0.00 | 0.00 | 100.00 | 0.00 |

Source: Own calculation with ITC (2012) data

3.4.2 Selecting Target Market: *fresh grapes* (HS 080610)

Fresh grapes (HS 080610): Zambia is first in the Market Attractiveness Index with the index of 46.48. It is followed by Angola and Zimbabwe with slight differences in their MAIs. Zambia offers a big tariff preference advantage that can be seen by the Tariff Preference Margin Index of 100. Its Import Growth Index is also very attractive, it comes after the one of Zimbabwe which is 100.

Table 12: MAI *fresh grapes* (HS 080610)

| Importers | Market Attractiveness Index | Market Access Index | Tariff Preference Margin Index | Tariff Preference Margin Advantage/ Disadvantage for South Africa | Country Demand Index | Index Import Growth | Index Average Annual Import Value |
|----------------------------------|-----------------------------|---------------------|--------------------------------|---|----------------------|---------------------|-----------------------------------|
| Zambia | 46.48 | 67.19 | 100.00 | 25.00 | 25.77 | 74.02 | 34.82 |
| Angola | 44.71 | 36.00 | 0.00 | 0.00 | 53.42 | 68.63 | 77.84 |
| Zimbabwe | 42.56 | 33.58 | 0.00 | 0.00 | 51.55 | 100.00 | 51.55 |
| Mauritius | 38.79 | 35.68 | 0.00 | 0.00 | 41.90 | 41.90 | 100.00 |
| Namibia | 36.99 | 41.36 | 15.23 | 3.81 | 32.62 | 47.45 | 68.74 |
| Madagascar | 32.32 | 61.80 | 80.00 | 20.00 | 2.84 | 36.05 | 7.89 |
| Mozambique | 29.98 | 59.96 | 80.00 | 20.00 | 0.00 | 0.00 | 19.26 |
| Democratic Republic of the Congo | 20.38 | 32.85 | 0.00 | 0.00 | 7.92 | 24.11 | 32.84 |
| Botswana | 17.44 | 0.05 | 0.00 | 0.00 | 34.82 | 56.75 | 61.35 |
| Malawi | 15.85 | 29.95 | 0.00 | 0.00 | 1.76 | 45.83 | 3.83 |
| Seychelles | 15.37 | 28.89 | 0.00 | 0.00 | 1.84 | 17.34 | 10.60 |
| United Republic of Tanzania | 15.23 | 30.47 | 0.00 | 0.00 | 0.00 | 51.10 | 0.00 |

Source: Own calculation with ITC (2012) data

3.4.3 Selecting Target Market: *refined sugar* (HS 170199)

Refined sugar (HS 170199): the MAIs of sugar in SADC are very close. Angola is here again selected for market diversification for this product because it comes in the first position. It is important to note that other markets are not negligible for the selected product; one may still have to go into these markets with almost the same level of Market Attractiveness Index.

Table 13: MAI *refined sugar* (HS 170199)

| Importers | Market Attractiveness Index | Market Access Index | Tariff Preference Margin Index | Tariff Preference Margin Advantage/Disadvantage for South Africa | Country Demand Index | Index Import Growth | Index Average Annual Import Value |
|----------------------------------|-----------------------------|---------------------|--------------------------------|--|----------------------|---------------------|-----------------------------------|
| Angola | 65.03 | 66.36 | 45.79 | 0.00 | 63.70 | 63.70 | 100.00 |
| Madagascar | 64.12 | 71.24 | 50.18 | 1.88 | 57.01 | 68.69 | 82.99 |
| United Republic of Tanzania | 63.35 | 59.55 | 45.76 | -0.02 | 67.16 | 72.68 | 92.40 |
| Mozambique | 62.38 | 59.87 | 61.17 | 6.57 | 64.89 | 96.42 | 67.30 |
| Democratic Republic of the Congo | 62.22 | 64.19 | 45.79 | 0.00 | 60.26 | 81.42 | 74.01 |
| Zimbabwe | 53.33 | 35.40 | 0.00 | -19.58 | 71.25 | 100.00 | 71.25 |
| Mauritius | 47.31 | 63.24 | 45.79 | 0.00 | 31.37 | 41.92 | 74.85 |
| Seychelles | 44.57 | 70.21 | 45.79 | 0.00 | 18.93 | 52.05 | 36.36 |
| Botswana | 38.19 | 17.33 | 45.79 | 0.00 | 59.05 | 71.32 | 82.79 |
| Zambia | 34.25 | 68.49 | 100.00 | 23.18 | 0.00 | 47.55 | 0.00 |
| Namibia | 28.81 | 51.55 | 45.79 | 0.00 | 6.07 | 9.24 | 65.63 |
| Malawi | 24.73 | 47.29 | 45.79 | 0.00 | 2.17 | 83.82 | 2.59 |
| Swaziland | 7.63 | 15.26 | 45.79 | 0.00 | 0.00 | 0.00 | 26.88 |

Source: Own calculation with ITC (2012) data

3.4.4 Selecting Target Market: *raw cane sugar* (HS 170111)

Raw cane sugar (HS 170111): Mauritius, Namibia and Zimbabwe are the first three countries with MAIs of 71.37, 68.70 and 59.65 respectively. These countries have a Demand Index of 72.07, 96.03 and 81.66 for Mauritius, Namibia and Zimbabwe respectively. South Africa has no Tariff Preference Margin Advantage with Mauritius, or with Namibia; however it has a Tariff Preference Margin Disadvantage with Zimbabwe.

Table 14: MAI *raw cane sugar* (HS 170111)

| Importers | Market Attractiveness Index | Market Access Index | Tariff Preference Margin Index | Tariff Preference Margin Advantage/Disadvantage for South Africa | Country Demand Index | Index Import Growth | Index Average Annual Import Value |
|----------------------------------|-----------------------------|---------------------|--------------------------------|--|----------------------|---------------------|-----------------------------------|
| Mauritius | 71.37 | 70.67 | 23.87 | 0.00 | 72.07 | 98.74 | 72.99 |
| Namibia | 68.70 | 41.38 | 23.87 | 0.00 | 96.03 | 99.51 | 96.49 |
| Zimbabwe | 59.65 | 37.64 | 0.00 | -6.27 | 81.66 | 100.00 | 81.66 |
| Democratic Republic of the Congo | 59.52 | 59.78 | 23.87 | 0.00 | 59.26 | 59.26 | 100.00 |
| Angola | 59.05 | 48.10 | 23.87 | 0.00 | 70.01 | 86.36 | 81.06 |
| Mozambique | 58.89 | 45.69 | 23.87 | 0.00 | 72.09 | 99.53 | 72.43 |
| Madagascar | 57.88 | 53.42 | 27.31 | 0.90 | 62.34 | 68.63 | 90.83 |
| Zambia | 36.63 | 70.55 | 100.00 | 20.00 | 2.71 | 6.32 | 42.94 |
| Botswana | 32.85 | 12.08 | 23.87 | 0.00 | 53.61 | 70.21 | 76.36 |
| United Republic of Tanzania | 32.30 | 54.79 | 23.87 | 0.00 | 9.81 | 13.06 | 75.14 |
| Seychelles | 26.07 | 37.53 | 23.87 | 0.00 | 14.62 | 31.20 | 46.85 |
| Malawi | 18.96 | 37.91 | 23.87 | 0.00 | 0.00 | 22.20 | 0.00 |
| Swaziland | 6.04 | 12.08 | 23.87 | 0.00 | 0.00 | 0.00 | 52.00 |

Source: Own calculation with ITC (2012) data

3.4.5 Selecting Target Market: *fresh apples* (HS 080810)

Fresh apples: Angola (MAI: 58.65), Zimbabwe (MAI: 57.04) and Zambia (MAI: 55.27) come in the first positions almost with the same value for the Market Attractiveness Index. One should remember that the MAI is the final computation and it includes all the indices in the Market Attractiveness Index of fresh apples and it is a simple average of the Country Demand Index and the Market Access Index. That is why here Angola is the most attractive market and it is chosen for *fresh apples* market. However the difference remains high when it comes to their Countries Demand Index which is 60.65 for Angola, 80.69 for Zimbabwe and 53.21 for Zambia. If only the Country Demand Index was considered, Zimbabwe could have been a good choice for fresh apples because of its high Country Demand Index of 80.69, which represents a high import value and a high import growth of fresh apples in SADC. Yet the point of the MAI is to take various factors into account. South Africa faces tariff disadvantage with Zimbabwe, but there is no disadvantage or advantage with Angola and Zambia. It has a tariff advantage with Madagascar as indicated by the relatively high Tariff Preference Margin.

Seychelles, the DR Congo and Mauritius are the second best options after those three mentioned above. They score MAI's of 44.95 and 39.76 and 39.65 for Seychelles, the DR Congo and Mauritius respectively. The Country Demand Index is 6.71, 21.56 and 24.84 for Seychelles, the DR Congo and Mauritius respectively.

Table 15: MAI *fresh apples* (HS 080810)

| Importers | Market Attractiveness Index | Market Access Index | Tariff Preference Margin Index | Tariff Preference Margin Advantage/ Disadvantage for South Africa | Country Demand Index | Index Import Growth | Index Average Annual Import Value |
|----------------------------------|-----------------------------|---------------------|--------------------------------|---|----------------------|---------------------|-----------------------------------|
| Angola | 58.66 | 56.67 | 72.73 | 0 | 60.65 | 60.65 | 100.00 |
| Zimbabwe | 57.05 | 33.40 | 0.00 | -40 | 80.70 | 100.00 | 80.70 |
| Zambia | 55.28 | 57.34 | 72.73 | 0 | 53.22 | 71.17 | 74.78 |
| Seychelles | 44.95 | 83.19 | 72.73 | 0 | 6.72 | 24.97 | 26.90 |
| Democratic Republic of the Congo | 39.76 | 57.96 | 72.73 | 0 | 21.56 | 72.13 | 29.89 |
| Mauritius | 39.66 | 54.47 | 72.73 | 0 | 24.84 | 30.05 | 82.65 |
| United Republic of Tanzania | 38.41 | 55.43 | 72.73 | 0 | 21.39 | 50.89 | 42.02 |
| Mozambique | 38.33 | 60.58 | 81.82 | 5 | 16.07 | 56.92 | 28.23 |
| Madagascar | 34.57 | 69.14 | 100.00 | 15 | 0.00 | 52.28 | 0.00 |
| Botswana | 28.79 | 24.32 | 72.73 | 0 | 33.26 | 36.18 | 91.94 |
| Malawi | 27.13 | 54.27 | 72.73 | 0 | 0.00 | 0.00 | 15.26 |

Source: Own calculation with ITC (2012) data

3.4.6 Selecting Target Market: *soya beans* (HS 120100)

Soya beans: Zambia represents the most attractive market for *soya beans* (HS 120100) with an MAI of 72.96. Mozambique is also important market for the products with an MAI of 64.40. The Country Demand Index for Zambia is very high at 100. Yet the second highest Country Demand Index is 80.09 for Botswana.

Table 16: MAI *soya beans* (HS 120100)

| Importers | Market Attractiveness Index | Market Access Index | Tariff Preference Margin Index | Tariff Preference Margin Advantage/ Disadvantage for South Africa | Country Demand Index | Index Import Growth | Index Average Annual Import Value |
|----------------------------------|-----------------------------|---------------------|--------------------------------|---|----------------------|---------------------|-----------------------------------|
| Zambia | 72.96 | 45.91 | 25.69 | 0.00 | 100.00 | 100.00 | 100.00 |
| Mozambique | 64.40 | 71.16 | 100.00 | 11.25 | 57.65 | 80.49 | 71.63 |
| Zimbabwe | 54.58 | 37.23 | 0.00 | -3.89 | 71.93 | 72.34 | 99.43 |
| Botswana | 47.85 | 15.61 | 25.69 | 0.00 | 80.09 | 94.27 | 84.95 |
| Mauritius | 44.56 | 71.27 | 25.69 | 0.00 | 17.84 | 53.04 | 33.64 |
| Malawi | 37.19 | 74.39 | 91.64 | 9.98 | 0.00 | 0.00 | 96.24 |
| Angola | 36.78 | 55.10 | 25.69 | 0.00 | 18.46 | 33.89 | 54.47 |
| Namibia | 31.49 | 50.01 | 78.53 | 8.00 | 12.96 | 53.75 | 24.12 |
| United Republic of Tanzania | 24.55 | 38.81 | 25.19 | -0.07 | 10.28 | 13.65 | 75.28 |
| Democratic Republic of the Congo | 22.11 | 44.22 | 25.69 | 0.00 | 0.00 | 71.22 | 0.00 |

Source: own calculation with ITC (2012) data

3.4.7 Selecting Target Market: *wine in containers <=2l* (HS 220421)

Wine in containers of <=2l: the top three countries are Mozambique, Angola and Mauritius with MAI's of 70.80, 59.07 and 43.09 respectively. Their Demand Indices are 54.88, 62.94 and 40.13 respectively. Their Tariff Preference Margin Indices are 86.39, 33.19 and 0 respectively.

The second best are the DR Congo, Madagascar, and the United Republic of Tanzania with almost the same Market Attractiveness Indices of 40.79, 39.49 and 38.80 respectively. Their

Demand Indices are 30.60, 10.26, and 32.69 for the DR Congo, Madagascar and the United Republic of Tanzania respectively.

Table 17: MAI *bottled wine* (HS 220421)

| Importers | Markety Attractiveness Index | Market Access Index | Tariff Preference Margin Index | Tariff Preference Margin Advantage/ Disadvantage for South Africa | Country Demand Index | Index Import Growth | Index Average Annual Import Value |
|----------------------------------|------------------------------|---------------------|--------------------------------|---|----------------------|---------------------|-----------------------------------|
| Mozambique | 70.80 | 86.73 | 86.40 | 19.91 | 54.88 | 100.00 | 54.88 |
| Angola | 59.08 | 55.21 | 33.20 | 0.00 | 62.94 | 62.94 | 100.00 |
| Mauritius | 43.09 | 46.04 | 0.00 | -12.42 | 40.14 | 62.42 | 64.30 |
| Democratic Republic of the Congo | 40.79 | 50.98 | 33.20 | 0.00 | 30.60 | 63.05 | 48.54 |
| Madagascar | 39.47 | 68.67 | 67.52 | 12.84 | 10.27 | 66.62 | 15.41 |
| United Republic of Tanzania | 38.81 | 44.92 | 31.00 | -0.82 | 32.69 | 61.10 | 53.51 |
| Zimbabwe | 37.97 | 44.40 | 33.20 | 0.00 | 31.55 | 84.17 | 37.48 |
| Swaziland | 37.15 | 66.67 | 100.00 | 25.00 | 7.63 | 28.67 | 26.61 |
| Zambia | 34.42 | 65.13 | 83.56 | 18.85 | 3.71 | 58.92 | 6.30 |
| Seychelles | 33.33 | 43.80 | 33.20 | 0.00 | 22.86 | 49.34 | 46.33 |
| Namibia | 31.86 | 63.72 | 99.73 | 24.90 | 0.00 | 0.00 | 40.97 |
| Botswana | 24.20 | 14.41 | 43.17 | 3.73 | 33.99 | 54.61 | 62.24 |
| Malawi | 20.68 | 41.36 | 33.20 | 0.00 | 0.00 | 38.30 | 0.00 |

Source: Own calculation with ITC (2012) data

3.4.8 Selecting Target Market: *fresh or dried oranges* (HS 080510)

Oranges, fresh or dried: as for *fresh apples* (HS 080810) Angola is here again on top in the MAI for *fresh or dried oranges* (HS 080510). It is important to notice that countries that come after Angola have very similar MAIs. For the first three countries after Angola, the difference is more or less a unit in their MAIs in descending order. Angola has got also the highest Country Demand Index which is 57.80.

Table 18: MAI *fresh or dried oranges* (HS 080510)

| Importers | Markety Attractiveness Index | Market Access Index | Tariff Preference Margin Index | Tariff Preference Margin Advantage/ Disadvantage for South Africa | Country Demand Index | Index Import Growth | Index Average Annual Import Value |
|----------------------------------|------------------------------|---------------------|--------------------------------|---|----------------------|---------------------|-----------------------------------|
| Angola | 68.77 | 79.73 | 62.50 | 0.00 | 57.80 | 63.90 | 90.45 |
| Mauritius | 58.43 | 73.34 | 62.50 | 0.00 | 43.52 | 43.52 | 100.00 |
| Democratic Republic of the Congo | 57.31 | 67.58 | 62.50 | 0.00 | 47.05 | 84.28 | 55.82 |
| Madagascar | 56.36 | 94.49 | 100.00 | 15.00 | 18.23 | 75.29 | 24.22 |
| Zambia | 52.72 | 53.93 | 62.50 | 0.00 | 51.51 | 54.20 | 95.03 |
| Zimbabwe | 50.77 | 47.11 | 19.32 | -17.27 | 54.43 | 100.00 | 54.43 |
| Namibia | 41.71 | 31.13 | 62.50 | 0.00 | 52.28 | 58.66 | 89.13 |
| Seychelles | 36.05 | 62.55 | 62.50 | 0.00 | 9.56 | 14.43 | 66.28 |
| Mozambique | 32.81 | 65.62 | 75.00 | 5.00 | 0.00 | 0.00 | 75.18 |
| Malawi | 32.51 | 36.65 | 0.00 | -25.00 | 28.36 | 72.86 | 38.93 |
| Botswana | 30.03 | 31.52 | 72.50 | 4.00 | 28.54 | 42.56 | 67.04 |
| United Republic of Tanzania | 29.30 | 58.59 | 62.50 | 0.00 | 0.00 | 47.43 | 0.00 |

Source: Own calculation with ITC (2012) data

3.4.9 Selecting Target Market: *wheat or meslin flour* (110100)

Wheat or meslin flour: Mauritius ranks first in the MAI for *wheat or meslin flour* (HS 110100). Its Country Demand Index is 54.17. Mauritius has the maximum Import Growth

Index of 100. The four countries after Mauritius are also attractive markets as their MAIs are also relatively high and close to that of Mauritius. They are: Madagascar, Tanzania, Zimbabwe and Angola.

Table 19: MAI *wheat or meslin flour* (HS 110100)

| Importers | Market Attractiveness Index | Market Access Index | Tariff Preference Margin Index | Tariff Preference Margin Advantage/ Disadvantage for South Africa | Country Demand Index | Index Import Growth | Index Average Annual Import Value |
|----------------------------------|-----------------------------|---------------------|--------------------------------|---|----------------------|---------------------|-----------------------------------|
| Mauritius | 69.03 | 83.89 | 92.45 | 4.33 | 54.17 | 100.00 | 54.17 |
| Madagascar | 66.77 | 72.68 | 68.02 | 2.16 | 60.85 | 78.27 | 77.75 |
| United Republic of Tanzania | 65.77 | 61.29 | 42.86 | -0.07 | 70.24 | 99.35 | 70.70 |
| Zimbabwe | 65.16 | 48.39 | 19.43 | -2.15 | 81.93 | 96.55 | 84.86 |
| Angola | 64.02 | 69.81 | 43.67 | 0.00 | 58.23 | 58.23 | 100.00 |
| Democratic Republic of the Congo | 54.25 | 57.77 | 43.67 | 0.00 | 50.73 | 56.72 | 89.45 |
| Mozambique | 53.83 | 93.50 | 100.00 | 5.00 | 14.16 | 33.66 | 42.07 |
| Malawi | 37.95 | 70.71 | 97.98 | 4.82 | 5.19 | 10.61 | 48.90 |
| Botswana | 32.50 | 22.98 | 43.67 | 0.00 | 42.01 | 67.46 | 62.28 |
| Seychelles | 27.02 | 40.17 | 43.67 | 0.00 | 13.88 | 28.40 | 48.86 |
| Namibia | 25.42 | 50.84 | 43.67 | 0.00 | 0.00 | 0.00 | 36.63 |
| Zambia | 20.74 | 41.48 | 0.00 | -3.88 | 0.00 | 25.37 | 0.00 |

Source: Own calculation with ITC (2012) data

3.4.10 Selecting Target Market: *wine in containers of > 2 litres* (HS 220429)

Wine in containers of >2 litres or bulk wine: the MAI for the top 3 countries for this product are 63.32, 54.51 and 43.48 for Angola Mozambique and Madagascar respectively. Their Demand Indices are 67.88, 41.57 and 20.81 for Angola Mozambique and Madagascar respectively. The second best three countries are Seychelles, Democratic Republic of the Congo and the United Republic of Tanzania.

Table 20: MAI *bulk wine* (HS 220429)

| Importers | Market Attractiveness Index | Market Access Index | Tariff Preference Margin Index | Tariff Preference Margin Advantage/ Disadvantage for South Africa | Country Demand Index | Index Import Growth | Index Average Annual Import Value |
|----------------------------------|-----------------------------|---------------------|--------------------------------|---|----------------------|---------------------|-----------------------------------|
| Angola | 63.32 | 58.76 | 56.06 | 0.00 | 67.89 | 67.89 | 100.00 |
| Mozambique | 54.51 | 67.45 | 90.30 | 19.48 | 41.58 | 94.56 | 43.97 |
| Madagascar | 43.48 | 66.15 | 81.58 | 14.52 | 20.82 | 79.45 | 26.20 |
| Seychelles | 42.20 | 50.32 | 56.06 | 0.00 | 34.07 | 59.22 | 57.54 |
| Democratic Republic of the Congo | 39.67 | 50.12 | 56.06 | 0.00 | 29.23 | 85.09 | 34.35 |
| United Republic of Tanzania | 35.59 | 52.86 | 56.06 | 0.00 | 18.33 | 54.09 | 33.88 |
| Botswana | 34.57 | 34.12 | 99.29 | 24.59 | 35.02 | 69.41 | 50.45 |
| Swaziland | 33.64 | 66.67 | 100.00 | 25.00 | 0.61 | 30.03 | 2.04 |
| Zambia | 29.49 | 58.98 | 74.40 | 10.44 | 0.00 | 69.14 | 0.00 |
| Mauritius | 28.60 | 52.66 | 39.02 | -9.69 | 4.55 | 44.05 | 10.33 |
| Zimbabwe | 27.75 | 34.28 | 0.00 | -31.89 | 21.22 | 91.16 | 23.28 |
| Namibia | 26.18 | 52.36 | 100.00 | 25.00 | 0.00 | 0.00 | 40.61 |
| Malawi | 20.02 | 39.12 | 24.67 | -17.86 | 0.91 | 100.00 | 0.91 |

Source: Own calculation with ITC (2012) data

3.4.11 Selecting Target Market: *sparkling wine* (HS 220410)

Sparkling wine: Angola, Madagascar and the DR Congo have the highest MAIs with 61.36, 50.39 and 50.22 respectively. The Demand Index is very high for Angola at 73.66, but reasonable for Madagascar and the DR Congo with 23.15 and 43.35 respectively.

The three second best countries would be Mozambique, Mauritius and Botswana. Their MAI's are 46.89, 45.50 and 35.75 respectively. Their Country Demand Indices are 21.99, 39.59, and 38.08 respectively. South Africa has got no tariff advantage with Angola and no tariff advantage with the DR Congo. It has tariff disadvantage with Mauritius, Madagascar, Mozambique and Botswana.

Table 21: MAI *sparkling wine* (HS 220410)

| Importers | Market Attractiveness Index | Market Access Index | Tariff Preference Margin Index | Tariff Preference Margin Advantage/Disadvantage for South Africa | Country Demand Index | Index Import Growth | Index Average Annual Import Value |
|----------------------------------|-----------------------------|---------------------|--------------------------------|--|----------------------|---------------------|-----------------------------------|
| Angola | 61.64 | 49.61 | 37.25 | 0.00 | 73.66 | 73.66 | 100.00 |
| Madagascar | 50.39 | 77.63 | 73.80 | 14.56 | 23.15 | 78.32 | 29.56 |
| Democratic Republic of the Congo | 50.22 | 57.09 | 37.25 | 0.00 | 43.36 | 63.73 | 68.03 |
| Mozambique | 46.90 | 71.79 | 86.78 | 19.74 | 22.00 | 89.10 | 24.69 |
| Mauritius | 45.50 | 51.42 | 0.00 | -14.84 | 39.59 | 51.60 | 76.73 |
| Botswana | 35.75 | 33.42 | 100.00 | 25.00 | 38.08 | 76.49 | 49.79 |
| Swaziland | 33.45 | 66.67 | 100.00 | 25.00 | 0.24 | 5.12 | 4.65 |
| Zambia | 33.19 | 66.37 | 74.23 | 14.73 | 0.00 | 57.70 | 0.00 |
| Seychelles | 32.61 | 50.10 | 37.25 | 0.00 | 15.11 | 27.15 | 55.64 |
| Zimbabwe | 30.62 | 45.07 | 34.21 | -1.21 | 16.16 | 68.07 | 23.74 |
| United Republic of Tanzania | 30.60 | 46.14 | 34.92 | -0.93 | 15.07 | 59.34 | 25.39 |
| Malawi | 24.37 | 36.10 | 18.44 | -7.49 | 12.65 | 100.00 | 12.65 |
| Namibia | 21.99 | 43.99 | 37.25 | 0.00 | 0.00 | 0.00 | 27.42 |

Source: Own calculation with ITC (2012) data

3.4.12 Selecting Target Market: *frozen bovine cuts* (HS 020220)

Frozen bovine cuts: Angola is by far the most attractive market in SADC according to the constructed MAI for *frozen bovine cuts* (HS 020220). It has a MAI of 85.90 and the second most attractive market is Mozambique with 52.49.

Table 22: MAI *frozen bovine cuts* (HS 020220)

| Importers | Market Attractiveness Index | Market Access Index | Tariff Preference Margin Index | Tariff Preference Margin Advantage/Disadvantage for South Africa | Country Demand Index | Index Import Growth | Index Average Annual Import Value |
|----------------------------------|-----------------------------|---------------------|--------------------------------|--|----------------------|---------------------|-----------------------------------|
| Angola | 85.90 | 90.10 | 83.33 | 0.00 | 81.69 | 81.69 | 100.00 |
| Mozambique | 52.49 | 75.97 | 100.00 | 5.00 | 29.01 | 72.92 | 39.78 |
| Zimbabwe | 47.65 | 94.44 | 83.33 | 0.00 | 0.85 | 4.63 | 18.37 |
| Mauritius | 47.56 | 85.91 | 83.33 | 0.00 | 9.21 | 19.50 | 47.26 |
| Seychelles | 43.69 | 77.79 | 83.33 | 0.00 | 9.59 | 62.44 | 15.36 |
| Democratic Republic of the Congo | 39.25 | 71.00 | 83.33 | 0.00 | 7.49 | 19.26 | 38.90 |
| Malawi | 34.62 | 66.70 | 83.33 | 0.00 | 2.55 | 16.62 | 15.34 |
| United Republic of Tanzania | 25.98 | 30.41 | 0.00 | -25.00 | 21.54 | 100.00 | 21.54 |
| Botswana | 18.37 | 36.75 | 83.33 | 0.00 | 0.00 | 0.00 | 0.00 |

Source: Own calculation with ITC (2012) data

3.4.13 Selecting Target Market: *sweetened milk powder* (HS 040229)

Sweetened milk powder: here again Mauritius comes first. Mauritius is by far the most attractive market for sweetened milk powder (HS 040229). It has a MAI of 83.14, whereas the second more attractive market is Zambia with an MAI of only 58.87. For other countries the MAIs are close to each other with small differences. The Country Demand Index is also very high for Mauritius 83.77, with the second best Demand Index for Zambia at only 48.70.

Table 23: MAI *sweetened milk powder* (HS 040229)

| Importers | Market Attractiveness Index | Market Access Index | Tariff Preference Margin Index | Tariff Preference Margin Advantage/ Disadvantage for South Africa | Country Demand Index | Index Import Growth | Index Average Annual Import Value |
|----------------------------------|-----------------------------|---------------------|--------------------------------|---|----------------------|---------------------|-----------------------------------|
| Mauritius | 83.14 | 82.51 | 59.39 | 0.00 | 83.77 | 83.77 | 100.00 |
| Zambia | 58.87 | 69.04 | 68.08 | 4.72 | 48.70 | 82.90 | 58.75 |
| Madagascar | 53.80 | 87.95 | 86.11 | 14.52 | 19.65 | 63.95 | 30.73 |
| Angola | 42.42 | 76.02 | 59.39 | 0.00 | 8.82 | 18.05 | 48.86 |
| Botswana | 41.02 | 44.48 | 100.00 | 22.07 | 37.56 | 49.77 | 75.46 |
| Democratic Republic of the Congo | 38.77 | 51.23 | 59.39 | 0.00 | 26.31 | 45.01 | 58.45 |
| Mozambique | 37.81 | 59.47 | 68.59 | 5.00 | 16.16 | 93.15 | 17.34 |
| United Republic of Tanzania | 34.80 | 69.60 | 50.06 | -5.07 | 0.00 | 100.00 | 0.00 |
| Malawi | 32.76 | 51.02 | 53.13 | -3.40 | 14.49 | 26.71 | 54.25 |
| Seychelles | 27.60 | 55.20 | 59.39 | 0.00 | 0.00 | 0.00 | 37.87 |
| Zimbabwe | 26.78 | 36.60 | 0.00 | -32.28 | 16.96 | 97.54 | 17.39 |

Source: Own calculation with ITC (2012) data

3.4.14 Selecting Target Market: *frozen bovine carcasses and half carcasses* (HS 020210)

Frozen bovine carcasses and half carcasses: Angola is the most attractive for *frozen bovine carcasses and half carcasses* (HS 020210) in SADC with a MAI of 62.70 and its Import Growth Index is 81.44. Although the DR Congo has a lower MAI of 59.55, it has an Import Growth Index of 100.

Table 24: MAI *frozen bovine carcasses and half carcasses* (HS 020210)

| Importers | Market Attractiveness Index | Market Access Index | Tariff Preference Margin Index | Tariff Preference Margin Advantage/ Disadvantage for South Africa | Country Demand Index | Index Import Growth | Index Average Annual Import Value |
|----------------------------------|-----------------------------|---------------------|--------------------------------|---|----------------------|---------------------|-----------------------------------|
| Angola | 62.70 | 43.96 | 0.00 | 0.00 | 81.44 | 81.44 | 100.00 |
| Democratic Republic of the Congo | 59.55 | 51.08 | 0.00 | 0.00 | 68.01 | 100.00 | 68.01 |
| Mozambique | 22.35 | 44.69 | 0.00 | 0.00 | 0.00 | 35.50 | 0.00 |
| Mauritius | 16.67 | 33.33 | 100.00 | 0.01 | 0.00 | 0.00 | 8.45 |

Source: Own calculation with ITC (2012) data

3.5 Summary and conclusion

Product selection was done after the construction of Export Potential Index. The Export Potential Index is preceded by the computation of South Africa Export Performance Index and the World Import Performance Index. One product may occupy different positions in

these three indices. However some products were maintained amongst those that were on the list prior the construction of the composite index matrix even if they were not top scoring, they are namely: *sparkling wine* (HS 220410), *frozen bovine cuts* (HS 020220), *sweetened milk powder* (HS 040229) and *frozen bovine carcasses and half carcasses* (HS 020210). All other remaining selected products are among the top 15, namely: *maize* (HS 100590), *fresh grapes* (HS 080610), *refined sugar* (HS 170199), *raw cane sugar* (HS 170111), *fresh apples* (HS 080810), *soya beans* (HS 120100), *wine in containers ≤2l* (HS 220421) (i.e. bottled wine), *fresh or dried oranges* (HS 080510), *wheat or meslin flour* (HS 110100) and *wine in containers >2l* (HS 220429) (i.e. bulk wine).

The choice of markets is made based on the constructed MAIs. The selected country for further investigation is the one that ranks first in the MAI of each selected product. Following this method of target market selection, one country in the region (SADC), may be selected more than once for further investigation. Angola, for example, is selected seven times, which represent seven different products namely: *refined sugar* (HS 170199), *fresh apples* (HS 080810), *fresh or dried oranges* (HS 080510), *wine in containers >2l* (HS 220429), *wine in containers ≤2l* (HS 220410), *frozen bovine cuts* (HS 020220) and *frozen bovine carcasses and half carcasses* (HS 020210). Mauritius is selected four times. Its selection includes *maize* (HS 100590), *sweetened milk powder* (HS 040229), *raw cane sugar* (HS 170111) and *wheat or meslin flour* (HS 110100). Mozambique is selected just once for *sparkling wine* (HS 220421) and Zambia is selected for *fresh grapes* (HS 080610) and for *soya beans* (HS 120100). If countries are not selected it does not necessarily mean they are not attractive markets. The countries that rank second and third for each product might still be attractive markets, but these were not discussed in detail.

The Export Potential Index and the Market Attractiveness Index are computed based on different indices each of which has a particular importance. Depending on the objective, market selection can be based on any of the other indices in the matrix. Each index provides particular information in the sector of choice. A decision maker can focus his strategy based on different indices. For example, considering a high Country Demand Index, this could be an opportunity to create a niche market by differentiating the product in targeting certain standard of living or/and life style. Now that the market is chosen for each product, the next step is to review the target market characteristics on trade and related factors.

Chapter 4: Target market characteristics: country and trade profiles

After product selection and market selection, this section will discuss for each product the market that is most attractive (i.e. the selected country). The selected country for a specific product is the one with the highest MAI ranking and its characteristics are discussed in more detail. Indicated are different environments and the market access conditions based on applied tariffs to South Africa and to its main competitors of the products in the country. This chapter also indicates South Africa's main competitors' market shares, growth rates and their level of productivity in terms of the Global Competitiveness Index in comparison with South Africa. This is because an exporter should know the big players, their features, as well as how the product is distributed in the target market.

4.1 Mauritius' profile: background and SWOT analysis

4.1.1 Trade

Mauritius has duty free trade with Madagascar, Comoros and the Seychelles. Mauritius imports from Madagascar are mainly food products, textiles and clothing, as well as wood products. Apart from being a member of SADC, Mauritius is also a member of COMESA and of the Indian Ocean Commission. In 2012, South Africa ranked fourth in Mauritius' total imports from the world after India, China and France (ITC, 2013). In 2012, India's share in Mauritius total imports was 22.5% and imports were dominated by mineral fuels, oils, distillations products, cereals, cotton, pharmaceutical products, electrical and electronic equipment, articles of apparel, meat and edible meat offal (ITC, 2013). South Africa's share in Mauritius' imports was 6.5% in 2012 and main exported products to Mauritius were mineral fuels, oils, distillation products, machinery, nuclear reaction, boilers, and vehicles other than railway for non-agricultural products. In the agricultural and food product category the main products exported to Mauritius include edible fruits, nuts, peel of citrus fruits, melons, live animals, vegetables, fruits, nuts and other food preparations as well as beverages, spirits and vinegar (ITC, 2013).

4.1.2 Mauritius' economic environment

Mauritius experiences economic growth in the order of 5% to 6%. This regular economic growth is accompanied by equitable income distribution, improvement of infrastructure, etc. Equitable income distribution is justified by a low Gini Index. The Gini Index was estimated

at 39 for 2006 while the lowest was 23 for Sweden for 2005. This is really attractive for business purposes. Economic activities are sugar, tourism, textiles and apparel and financial services. There is expansion towards fish processing, information and communications technology as well as hospitality and property development. GDP (PPP) was US\$ 19.52 billion in 2011, versus GDP per capita (PPP) of US\$ 15 100 in 2011. GDP composition by sector was in 2011 4.5%, 24%, 71.4% for agriculture, industry and services respectively. Population below the poverty line in 2006 was 8%, which is a good reflection for income equity distribution relative to GDP (CIA, 2012). GDP (PPP), which indicates purchasing power parity, is the measure most preferred by economists and businessmen when they want to look at per-capita wellbeing and when they want to compare living conditions or/and utilization of resources in different countries.

4.1.3 Mauritius' political environment

Mauritius is a developing nation with a stable government and a growing economy. There are no major risks in the country in terms political environment. Yet, travellers should avoid crowds and street demonstrations especially in Creole and in Asian communities (Direct Travel Insurance, 2008).

4.1.4 Mauritius' communication and transportation

Mauritius has a significant number of cell phones in use; it was estimated at 1.19 million cell phones in 2009. Cell phones' density in 2010 reached 90% relative to its population number that was estimated at 1.3 million in July 2012. This is a good indication of technology utilization in the country and reflects the inhabitants' standard of living. Internet users amounted to 290 000 in 2009 (CIA, 2012).

Mauritius' total area is 2 040 square km with five airports but only two are paved. Roadways are well maintained, there are 2 066 km and all are paved. Roads are complemented by waterways that are made possible by the presence of the Indian Ocean because the country itself is an island. Mauritius has one important port: "Port Louis". Railways are non-existent in Mauritius (CIA, 2012).

Table 25: SWOT Analysis: Mauritius

| | Strengths/Opportunities | Threats/Weaknesses |
|---------------------------|--|---|
| Trade | Mauritius is a signatory of SADC protocol; South Africa is Mauritius' fourth largest trading partner in imports; good diplomatic relations. | Big competitors: India, China and France for all products. |
| Political environment | Mauritius is a developing nation with a stable government and a growing economy. There is no major risk; the rating of risk due to politics is low. | The Mauritian political risk environment is moderate. It is characterized by: subsidies and price control by the government which sometimes cause price volatility, the government debt remains high, and the government tends to reform tax regime which could be quite aggressive. |
| Economic environment | High and stable economic growth. High GDP per capita with very good income distribution. Small percentage of population below poverty line. | Mauritius export destinations are mainly the United Kingdom (18.8%), France (16%) and the United State of America (10.1%). This major dependence of exports of more than 44% only to these three countries may cause serious problems to Mauritius during an economic crisis in these trading partners. |
| Social environment | Healthy and well educated people, with buying behaviour changing to better quality. South Africa can meet the requirements. | Travellers should avoid crowds and street demonstrations especially in Creole and in Asian community. Population growth rate in Mauritius is slowing down: 3.19% in 1961 and 0.4% in 2011. Language: French and Creole, not English. |
| Technological environment | Effective technology utilization, therefore promotion with internet is possible. The distribution system is made easy by well-developed infrastructure | Product quality requirement is high. Other Mauritius big trade partners are very competitive in terms of this requirement. They can meet quality and other obligations regarding products because they have the equipment needed. South Africa will face high competition. |

Source: Own compilation based on relevant literature

4.1.5 South Africa trade performance in Mauritius for *maize* (HS 100590)

Mauritius's import growth from the world in value for *maize* (HS 100590) over five years (i.e. from 2008 to 2012) was 7%. Argentina, the main competitor for South Africa for *maize* (HS 100590) in Mauritius has lost some market share because the Mauritian import growth from Argentina was 3% from 2008 to 2012, which is smaller than the 7% growth of Mauritius imports from the world during the same period. Argentina has the biggest share in Mauritius' imports. In 2012, Mauritius imported roughly 75% from Argentina, 25% from Paraguay and less than 1% from others. Paraguay is gaining market share in Mauritius' imports of *maize* (HS 100590). On the contrary, South Africa is losing market share even if

its exports base to Mauritius of this product is small. South Africa exports of this product to Mauritius are almost non-existent, with Mauritius' imports of *maize* (HS 100590) from South Africa being less than 1% in 2012. Mauritius imports of *maize* (HS 100590) from South Africa have decreased by 19% over the 5 years (i.e. from 2008 to 2012) (ITC, 2013).

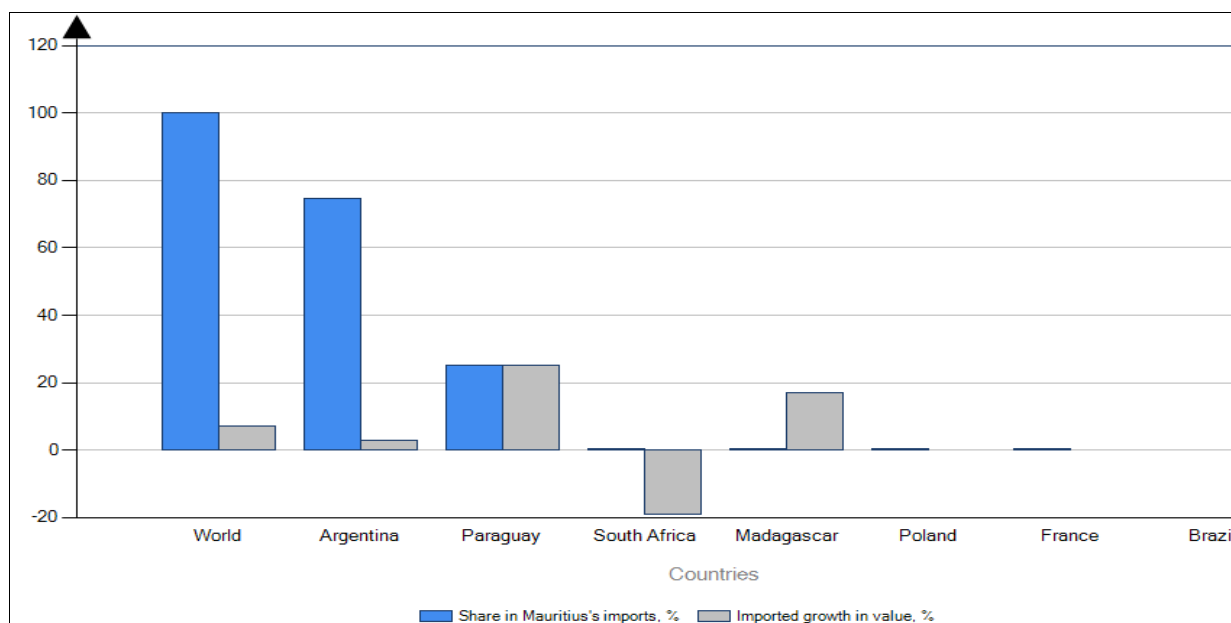


Figure 23: Exporters of *maize* (HS 100590) to Mauritius and their share in Mauritius imports in 2012

Source: ITC (2013)

Mauritius' imports of *maize* (HS 100590) from South Africa are very small. There was an exception in 2010 where the Mauritian import value from South Africa was very high (i.e. US\$ 2.95 million) compared with other periods with the second highest value in 2009 (i.e. US\$ 109 thousand).

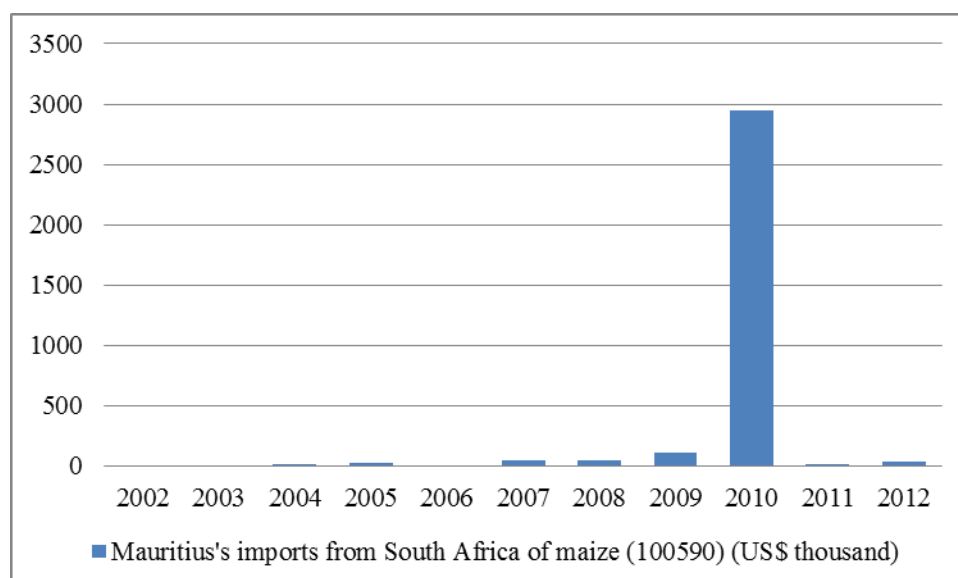


Figure 24: Mauritius imports of *maize* (HS 100590) from South Africa (2002-2012)

Source: Own compilation with ITC (2013) data

4.1.5.1 Mauritius applied tariff for maize (HS 100590)

There is no tariff advantage for any main competitors in Mauritius for *maize* (HS 100590). All main competitors, including South Africa, face 0.0% applied tariffs by Mauritius in the market of *maize* (HS 100590). Mauritius applies the MFN duties to all main competitors including South Africa. South Africa exported this product mainly to Mexico (88.3% share in SA's exports), Mozambique (5.3% share in SA's exports), Korea, Democratic People's Republic (1.9% share in SA exports), Zimbabwe (1.6% share in SA's exports) in 2011. In SADC, South Africa exports more to Mozambique and Zimbabwe.

Table 26: Tariff faced and tariff advantage in Mauritius for *maize* (HS 100590)

| | Market share in 2012 (%) | Tariffs faced | Trade Regime | Tariff advantage for South Africa (yes/no) |
|---|---------------------------------|-------------------------------------|----------------------|--|
| South Africa | 0.1 | 0.00% | MFN duties (Applied) | no |
| South Africa's main competitors in target market | Market share in 2012 (%) | Tariffs faced by competitors | Trade Regime | Tariff advantage for competitors (yes/no) |
| Argentina | 74.6 | 0.00% | MFN duties (Applied) | no |
| Paraguay | 25.1 | 0.00% | MFN duties (Applied) | no |
| Madagascar | 0.1 | 0.00% | MFN duties (Applied) | no |

Table 27: Global Competitiveness Index 2012-2013 for exporters of *maize* (HS 100590) to Mauritius

| Pillars | Argentina | | Paraguay | | Madagascar | | South Africa | |
|---|-------------|---------|-------------|---------|-------------|---------|--------------|---------|
| | Score (1-7) | Ranking | Score (1-7) | Ranking | Score (1-7) | Ranking | Score (1-7) | Ranking |
| 1 Institutions | 2.8 | 138 | 3 | 135 | 2.9 | 136 | 4.4 | 43 |
| 2 Infrastructure | 3.6 | 86 | 2.5 | 123 | 2.1 | 137 | 4.4 | 63 |
| 3 Macroeconomic Environment | 4.3 | 94 | 5.2 | 43 | 4.3 | 95 | 4.1 | 69 |
| 4 Health and primary education | 5.8 | 59 | 5 | 108 | 4.7 | 110 | 4.6 | 132 |
| 5 High Education and Training | 4.6 | 53 | 3.3 | 112 | 2.7 | 133 | 3.9 | 84 |
| 6 Goods markets efficiency | 3.2 | 140 | 4.2 | 81 | 3.8 | 115 | 4 | 32 |
| 7 Labor markets efficiency | 3.3 | 140 | 3.9 | 115 | 4.5 | 54 | 4.7 | 113 |
| 8 Financial Market development | 3.2 | 131 | 3.9 | 83 | 2.9 | 138 | 3.9 | 3 |
| 9 Technological readiness | 3.8 | 67 | 3.1 | 107 | 2.5 | 135 | 5.7 | 62 |
| 10 Market size | 4.9 | 23 | 3.1 | 90 | 2.7 | 113 | 4 | 25 |
| 11 Business sophistication | 3.7 | 89 | 3.5 | 107 | 3.3 | 122 | 4.8 | 38 |
| 12 Innovation | 3 | 91 | 2.4 | 132 | 2.9 | 106 | 4.3 | 42 |
| Global index & Rank in the world | 3.9 | 94 | 3.7 | 116 | 3.4 | 130 | 3.5 | 52 |

Source: Compiled with Schwab (2012) data on the Global Competitiveness Report

4.1.6 South Africa trade performance in Mauritius for *sweetened milk powder* (HS 040229)

Sweetened milk powder: in 2011 Mauritius imported roughly US\$ 17.2 million worth of *sweetened milk powder* (HS 040229). Australia is the biggest trade partner of Mauritius in *sweetened milk powder* (HS 040229). In 2011 Mauritius imported roughly US\$ 10.7 million worth of *sweetened milk powder* (HS 040229) from Australia, \$ 4.4 million from New Zealand, US\$ 1.4 million from France and US\$ 1 thousand from South Africa. Australia has a big share in Mauritius' imports, with roughly 62% of total imports in 2011, New Zealand 26%, France 8%, and the Netherlands 1%. France, New Zealand and Argentina are gaining market share because Mauritius import growth (19% between 2007 and 2011) is smaller than Mauritius import growth from these countries, namely France 76%, New Zealand 63% and Argentina 50%. South Africa is notably losing market share in Mauritius. Its import growth in value during the same period was negative at -63%.

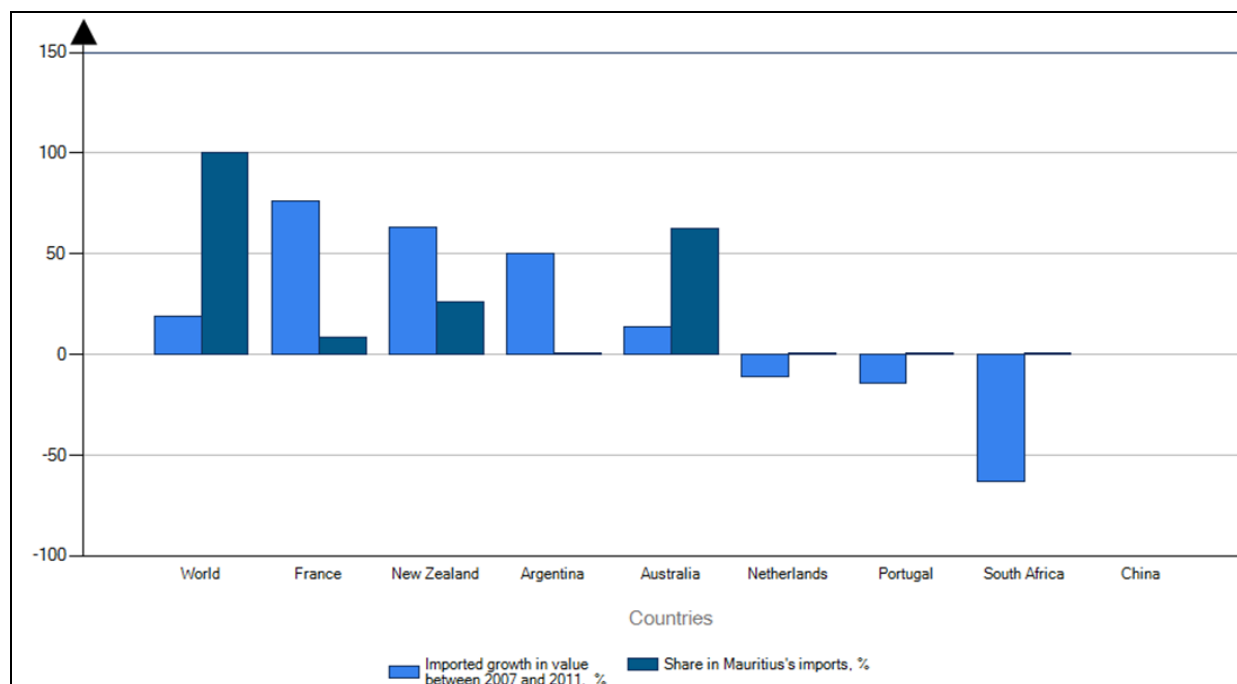


Figure 25: Shares of suppliers of *sweetened milk powder* (HS 040229) in 2011 and their import growth in value in Mauritius between 2007 & 2011

Source: ITC (2012)

4.1.6.1 Mauritius applied tariff for sweetened milk powder (HS 040229)

None of the main competitors have tariff advantage in the market of *sweetened milk powder* (HS 040229) in Mauritius. All main competitors including South Africa face 0.0% applied tariffs by Mauritius in the market of *sweetened milk powder* (HS 040229). Mauritius applies the MFN duties to all main competitors including South Africa. South Africa's exports of this product to Mauritius is almost non-existent, the market is by far dominated by Australia with market share of 62.4%, New Zealand with 25.8% and France with 8.4%. In 2011 South Africa exported more to Zambia (53.7% share in SA's exports), Mozambique (19.1% share in SA's exports), Malawi (12.4% share in SA exports), Zimbabwe (9.8% share in SA's exports) and the DR Congo (2% share in SA's exports). It seems evident that more of South Africa's exports of *sweetened milk powder* (HS 040229) go SADC countries, but not necessarily to Mauritius.

Table 28: Tariff faced and tariff advantage in Mauritius for *sweetened milk powder* (HS 040229)

| | Market share in 2011 (%) | Tariffs faced | Trade Regime | Tariff advantage for South Africa (yes/no) |
|--|--------------------------|------------------------------|----------------------|--|
| South Africa | 0 | 0.00% | MFN duties (Applied) | no |
| South Africa's main competitors in target market | Market share in 2011 (%) | Tariffs faced by competitors | Trade Regime | Tariff advantage for competitors (yes/no) |
| Australia | 62.4 | 0.00% | MFN duties (Applied) | no |
| New Zealand | 25.8 | 0.00% | MFN duties (Applied) | no |
| France | 8.4 | 0.00% | MFN duties (Applied) | no |

Source: Compiled with the ITC (2012) data

4.1.6.2 Market place and distributors of milk in Mauritius

Both traditional and modern distribution channels are more or less equally important. Traditional distributors consist of a large number of small shops and convenience stores. Traditional distributors account roughly for 60% of sales of fast-moving consumer goods (FMCGs) and modern channels account for roughly 40% sales of FMCGs. The major modern distributors in Mauritius are four hypermarkets (of which two for Jumbo, one each for Shoprite and Lolo). There are a notable number of medium sized supermarkets, roughly seventy (Competition Commission of Mauritius, 2010).

Table 29: Global Competitiveness Index 2012-2013 for exporters of *sweetened milk powder* (HS 040229) to Mauritius

| Pillars | Australia | | New Zealand | | France | | South Africa | |
|----------------------------------|-------------|---------|-------------|---------|-------------|---------|--------------|---------|
| | Score (1-7) | Ranking | Score (1-7) | Ranking | Score (1-7) | Ranking | Score (1-7) | Ranking |
| 1 Institutions | 5.3 | 18 | 6.1 | 23 | 4.8 | 32 | 4.4 | 43 |
| 2 Infrastructure | 5.7 | 18 | 5.2 | 2 | 6.3 | 4 | 4.4 | 63 |
| 3 Macroeconomic Environment | 5.6 | 26 | 4.7 | 30 | 4.6 | 68 | 4.1 | 69 |
| 4 Health and primary education | 6.5 | 13 | 6.6 | 61 | 6.3 | 21 | 4.6 | 132 |
| 5 Higher Education and Training | 5.6 | 11 | 5.7 | 4 | 5.1 | 27 | 3.9 | 84 |
| 6 Goods markets efficiency | 4.9 | 24 | 5.3 | 10 | 4.5 | 46 | 4 | 32 |
| 7 Labor markets efficiency | 4.6 | 42 | 5.2 | 3 | 4.4 | 66 | 4.7 | 113 |
| 8 Financial Market development | 5.4 | 8 | 5.5 | 9 | 4.7 | 27 | 3.9 | 3 |
| 9 Technological readiness | 5.6 | 19 | 5.5 | 5 | 5.7 | 14 | 5.7 | 62 |
| 10 Market size | 5.1 | 21 | 3.8 | 23 | 5.8 | 8 | 4 | 25 |
| 11 Business sophistication | 4.6 | 30 | 4.8 | 63 | 5 | 21 | 4.8 | 38 |
| 12 Innovation | 4.5 | 23 | 4.4 | 27 | 4.9 | 17 | 4.3 | 42 |
| Global index & Rank in the world | 5.1 | 20 | 5.1 | 24 | 5.1 | 21 | 3.5 | 52 |

Source: Compiled with Schwab (2012) data on the Global Competitiveness Report

South Africa faces here again competitors with more or less the same level of productivity, for example New Zealand and France. Australia comes on top of all of all main competitors in terms of the Global Competitiveness Index, which shows the level of productivity of a

country, and ranks the 20th just before France which ranks 21st. They all export *sweetened milk powder* (HS 040229) to Mauritius. The Global Competitiveness Index ranking is out of 144 countries worldwide.

4.1.7 South Africa trade performance in Mauritius for *raw cane sugar* (HS 170111)

Raw cane sugar: In 2012 Brazil was Mauritius' only trade partner for *raw cane sugar* (HS 170111). In 2012, Mauritius 100% of world imports of *raw cane sugar* (HS 170111) was from Brazil (ITC, 2013). Hence, the import market of *raw cane sugar* (HS 170111) in Mauritius appears to be a monopoly.

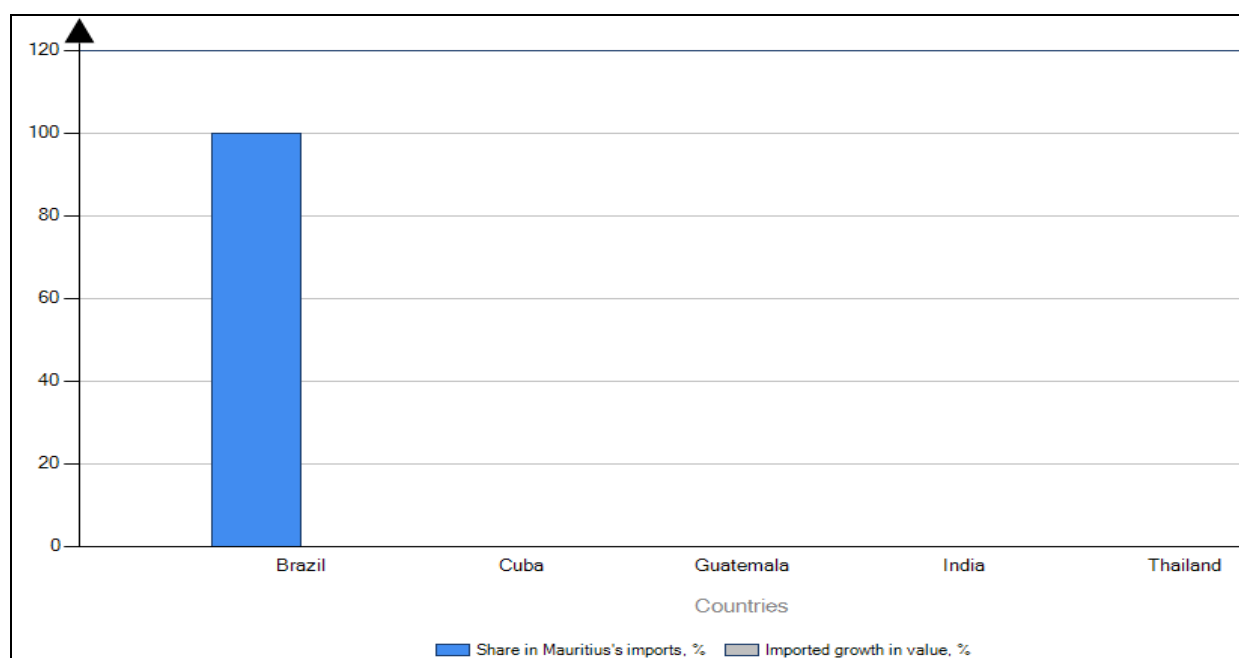
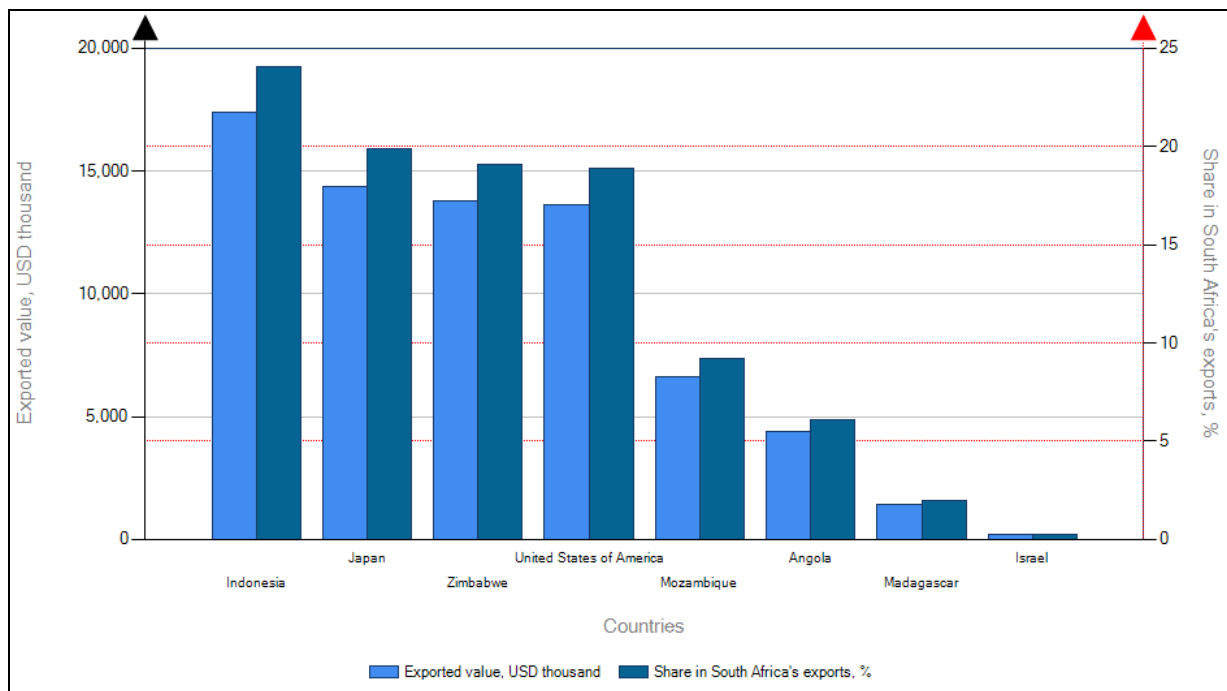


Figure 26: Suppliers of *raw cane sugar* (HS 170111) imported by Mauritius in 2012

Source: ITC (2013)

South Africa exports *raw cane sugar* (HS 170111) mainly to Indonesia, Japan, Zimbabwe, United States of America, Mozambique, Angola, Madagascar and Israel (ITC, 2013). In 2012, 24% of South Africa's exports went to Indonesia and represented US\$ 17.36 million. Japan, South Africa's second largest trade partner, accounted for 20%, Zimbabwe for 19%, United states of America for 19%, Mozambique for 9%, Angola for 6%, Madagascar for 2% and Israel less than 1% of South Africa's share of *raw cane sugar* (HS 170111) exported values as illustrated in figure 27. South Africa does not currently export *raw cane sugar* (HS 170111) to Mauritius.

Figure 27: South Africa's exports of *raw cane sugar* (HS 170111) in 2012

Source: ITC (2013)

4.1.7.1 Mauritius applied tariff for raw cane sugar (HS 170111)

Mauritius has no preferential tariff for South Africa or for any main competitor in its import market of *raw cane sugar* (HS 170111). Tariffs faced in Mauritius for this product is 0% for South Africa and its main competitors. There is no tariff advantage for any main exporter of *raw cane sugar* (HS 170111) to Mauritius. South Africa's as well as all its main competitors face MFN duties in Mauritius for this product. The import market of *raw cane sugar* (HS 170111) in Mauritius is by far dominated by Brazil. In 2012, 100% of Mauritius' imports of this product originated from Brazil (ITC, 2013).

Table 30: Tariff faced and tariff advantage in Mauritius for *raw cane sugar* (HS 170111)

| | Market share in 2012 (%) | Tariffs faced | Trade Regime | Tariff advantage for South Africa (yes/no) |
|---|---------------------------------|-------------------------------------|----------------------|---|
| South Africa | 0.00% | 0% | MFN duties (Applied) | no |
| South Africa's main competitors in target market | Market share in 2012 (%) | Tariffs faced by competitors | Trade Regime | Tariff advantage for South Africa (yes/no) |
| Brazil | 100.00% | 0% | MFN duties (Applied) | no |
| Cuba | 0.00% | 0% | MFN duties (Applied) | no |
| Guatemala | 0.00% | 0% | MFN duties (Applied) | no |

Globally Brazil is ranked 79th in the world and South Africa is ranked 52nd in terms of the Global Competitiveness Index. Brazil, the best competitor in the market of *raw cane sugar* (HS 170111) in Mauritius scores 4.4 out of 7 and ranks 48th. The difference in the Global Competitiveness Index with South Africa is very small. South Africa scores also 4.4 and ranked 52nd in terms of competitiveness. South Africa surpasses Brazil in terms of institutions, Brazil score is 3.8 and South Africa score is 4.4 out of 7. South Africa has more developed infrastructure than Brazil. Brazil's scores in education sectors are higher than South Africa's scores in the same sectors. Guatemala remains quite behind Brazil and South Africa in terms of the Global Competitiveness Index. It is ranked 83rd and scores 4 out of 7.

Table 31: Global Competitiveness Index 2012-2013 for exporters of *raw cane sugar* (HS 170111) to Mauritius

| Pillars | Brazil | | Cuba | | Guatemala | | South Africa | |
|----------------------------------|-------------|---------|-------------|---------|-------------|---------|--------------|---------|
| | Score (1-7) | Ranking | Score (1-7) | Ranking | Score (1-7) | Ranking | Score (1-7) | Ranking |
| 1 Institutions | 3.8 | 79 | — | — | 3.2 | 124 | 4.4 | 43 |
| 2 Infrastructure | 4 | 70 | — | — | 3.8 | 75 | 4.4 | 63 |
| 3 Macroeconomic environment | 4.7 | 62 | — | — | 4.6 | 77 | 4.1 | 69 |
| 4 Health and primary education | 5.4 | 88 | — | — | 5.3 | 95 | 4.6 | 132 |
| 5 Higher education and training | 4.3 | 66 | — | — | 3.5 | 104 | 3.9 | 84 |
| 6 Goods market efficiency | 3.9 | 104 | — | — | 4.3 | 66 | 4 | 32 |
| 7 Labor market efficiency | 4.4 | 69 | — | — | 4.2 | 90 | 4.7 | 113 |
| 8 Financial market development | 4.4 | 46 | — | — | 4.5 | 41 | 3.9 | 3 |
| 9 Technological readiness | 4.4 | 48 | — | — | 3.5 | 87 | 5.7 | 62 |
| 10 Market size | 5.6 | 9 | — | — | 3.5 | 73 | 4 | 25 |
| 11 Business sophistication | 4.5 | 33 | — | — | 4.2 | 57 | 4.8 | 38 |
| 12 Innovation | 3.4 | 49 | — | — | 3 | 90 | 4.3 | 42 |
| Global index & rank in the world | 4.4 | 48 | — | — | 4 | 83 | 3.5 | 52 |

Source: Compiled with Schwab (2012) data on the Global Competitiveness Report

4.1.8 South Africa trade performance in Mauritius for *wheat or meslin flour* (HS 110100)

Wheat or meslin flour: Turkey dominates by far the Mauritius import market of *wheat or meslin flour* (HS 110100). In 2012, Turkey's share in Mauritius' imports from the world was 83% and represented US\$ 844 thousand. Mauritius' second trade partner of *wheat or meslin flour* (HS 110100) is India with 12%, followed by New Zealand with 4%, France with 1% and Italy with less than 1%.

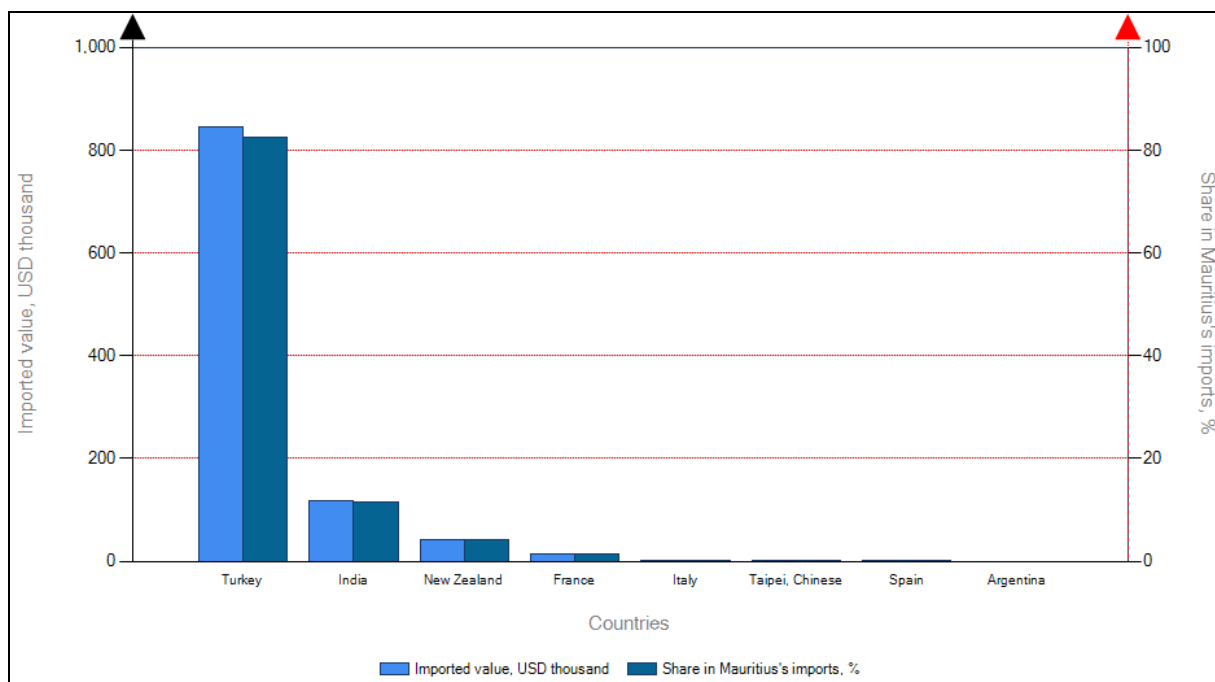


Figure 28: Mauritius imports of *wheat or meslin flour* (HS 110100) in 2012

Source: ITC (2013)

South Africa exports *wheat and meslin flour* (HS 110100) mainly to Zimbabwe. In 2012 Zimbabwe accounted for 90% of South Africa's exports of *wheat or meslin flour* (HS 110100) and the 90% represented US\$ 49.51 million. It is followed by Zambia with 7%, Mozambique with 1%, the DR Congo with 1% and Saint Helena with less than 1%.

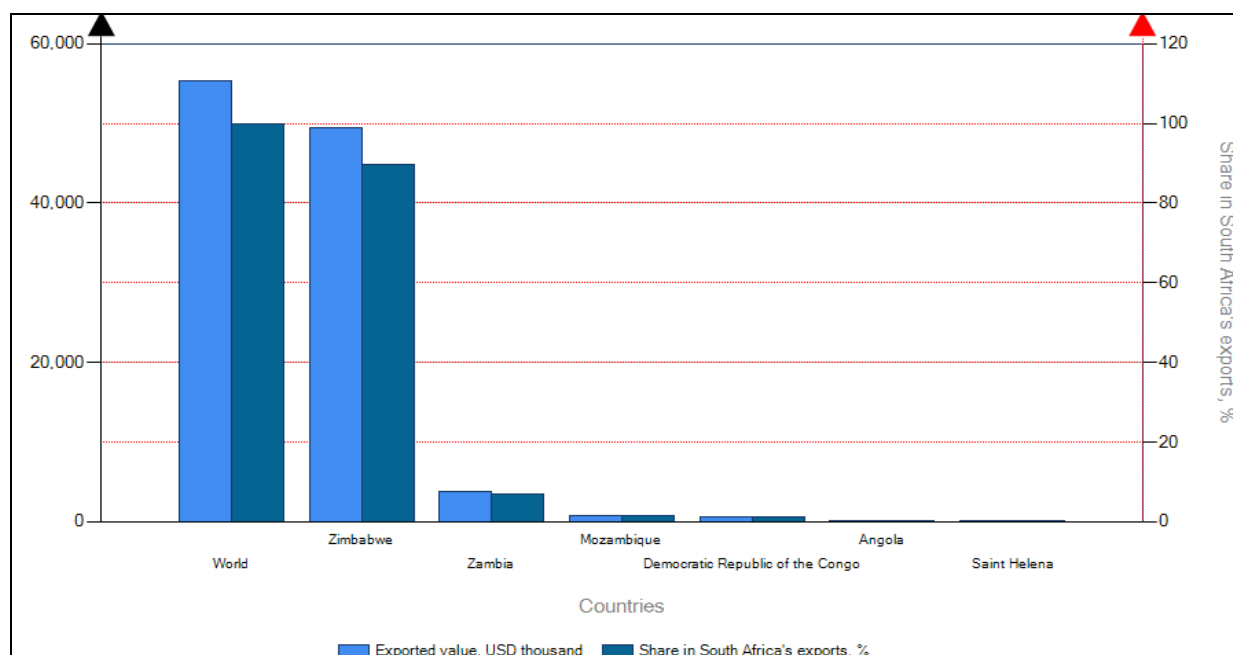


Figure 29: South Africa's exports of *wheat or meslin flour* (HS 110100) in 2012

Source: ITC (2013)

4.1.8.1 Mauritius applied tariff for wheat or meslin flour (HS 110100)

The import market of *wheat or meslin flour* (HS 110100) in Mauritius was dominated by Turkey in 2012. There is no indication that South Africa exports this product to Mauritius. Yet, South Africa has a tariff advantage over all main exporters of this product to Mauritius. It faces 9% on customs duty, when all main exporters face 15% applied tariff. Mauritius' trade regime with South Africa for *wheat or meslin flour* (HS 110100) is the preferential tariff for SADC countries. Other countries face the MFN duties. South Africa exports more *wheat or meslin flour* (HS 110100) to: Zimbabwe (89.6% share in SA's exports) at a 10% tariff rate, Zambia (6.9% share in SA's exports) at a 0% tariff rate and Mozambique (1.4% share in SA's exports) at a 15% tariff rate (ITC, 2013).

Table 32: Tariff faced and tariff advantage in Mauritius for *wheat or meslin flour* (HS 110100)

| | Market share in 2012 (%) | Tariffs faced | Trade Regime | Tariff advantage for South Africa (yes/no) |
|--|--------------------------|------------------------------|--|--|
| South Africa | none | 9% | Preferential tariff for SADC countries | yes |
| South Africa's main competitors in target market | Market share in 2012 (%) | Tariffs faced by competitors | Trade Regime | Tariff advantage for South Africa (yes/no) |
| Turkey | 82.60% | 15% | MFN duties (Applied) | no |
| India | 11.50% | 15% | MFN duties (Applied) | no |
| New Zealand | 4.20% | 15% | MFN duties (Applied) | no |

Turkey, the main exporter of *wheat or meslin flour* (HS 110100) to Mauritius, is ahead of South Africa in the Global Competitiveness. It is ranked 43rd and scores 4.5 out of 7, South Africa is ranked 52nd and scores 4.4 out of 7. South Africa's institutions score better than those in Turkey. Turkey and South Africa both have roughly the same level of infrastructure and score 4.4 out of 7. Turkey is very competitive in terms of global market size as it ranks 15th and South Africa ranks 25th. Turkey scores 5.3 out of 7 in terms of global market size whereas South Africa scores 4. New Zealand is far ahead and it is very productive. It is ranked 24th and scores 5.1 out of 7.

Table 33: Global Competitiveness Index 2012-2013 for exporters of *wheat or meslin flour* (HS 110100) to Mauritius

| Pillars | Turkey | | India | | New Zealand | | South Africa | |
|---|-------------|---------|-------------|---------|-------------|---------|--------------|---------|
| | Score (1-7) | Ranking | Score (1-7) | Ranking | Score (1-7) | Ranking | Score (1-7) | Ranking |
| 1 Institutions | 4 | 64 | 3.9 | 70 | 6.1 | 23 | 4.4 | 43 |
| 2 Infrastructure | 4.4 | 51 | 3.6 | 84 | 5.2 | 2 | 4.4 | 63 |
| 3 Macroeconomic environment | 4.9 | 55 | 4.3 | 99 | 4.7 | 30 | 4.1 | 69 |
| 4 Health and primary education | 5.8 | 63 | 5.3 | 101 | 6.6 | 61 | 4.6 | 132 |
| 5 Higher education and training | 4.1 | 74 | 4 | 86 | 5.7 | 4 | 3.9 | 84 |
| 6 Goods market efficiency | 4.6 | 38 | 4.2 | 75 | 5.3 | 10 | 4 | 32 |
| 7 Labor market efficiency | 3.8 | 124 | 4.2 | 82 | 5.2 | 3 | 4.7 | 113 |
| 8 Financial market development | 4.5 | 44 | 4.9 | 21 | 5.5 | 9 | 3.9 | 3 |
| 9 Technological readiness | 4.3 | 53 | 3.4 | 96 | 5.5 | 5 | 5.7 | 62 |
| 10 Market size | 5.3 | 15 | 6.2 | 3 | 3.8 | 23 | 4 | 25 |
| 11 Business sophistication | 4.3 | 47 | 4.3 | 40 | 4.8 | 63 | 4.8 | 38 |
| 12 Innovation | 3.3 | 55 | 3.6 | 41 | 4.4 | 27 | 4.3 | 42 |
| Global index & rank in the world | 4.5 | 43 | 4.3 | 59 | 5.1 | 24 | 3.5 | 52 |

Source: Compiled with Schwab (2012) data on the Global Competitiveness Report

4.2 Angola's profile: background and SWOT analysis

4.2.1 Trade

One of the trade policy instruments of Angola are customs tariffs. In 2005 Angola reduced its simple average MFN applied rate from 8.8% to 7.4%, and they reduced the maximum applied duty rate to 30%. The applied rate of Angolan tariffs remains below the levels of bound tariffs from the GATT agreements in 1994. The ceiling rate of agricultural products is 55% within which a few lines are below the bound rates of 10% and/or 15%.

For MFN treatment, Angola applies the same tariffs on all products, including non-agricultural products. South Africa also faces the MFN treatment in Angola on customs' duties for almost all products. The applied tariffs of Angola for the MFN are bound at six different levels. For agricultural products they include: 2% for cotton, 5% for sugars and confectionery, 10% for dairy products, 15% fruits, vegetables, plants, cereals and preparations, oilseeds, fats and oils, 20% for animal products or 30% for coffee, tea, beverages, tobacco and other agricultural products. The national tariff lines of Angola are levied at 8 digits levels (Daya, 2006). Currently Angola still applies the same bound tariffs mentioned above to the MFN on agricultural products in maximum terms as indicated by the World Trade Organisation (2013) and in average terms as follows (World Trade Organisation, 2013): 6% on dairy products, 7.8% on cereals and preparations, 11.1% on animal products, 11.7% on fruits, vegetables and plants, finally 16.5% on coffee and tea.

There has been a steady growth of trade between Angola and South Africa. In 2009 South Africa's exports to Angola amounted to almost R5.5 billion while Angolan exports to South Africa amounted to nearly R12 billion. South Africa's exports to Angola are diverse, in contrast to Angola's exports to South Africa which are predominantly petroleum related products. Roughly 90% of Angola exports to South Africa were petroleum related products in 2009. Angola's total exports to South Africa in 2012 were estimated at US\$ 2.8 billion, with petroleum related products accounting for roughly 98% (ITC, 2013).

Currently, Angola is a member of only one regional African trade agreement, namely SADC. In 2007 Angola withdrew itself from COMESA (Sebei, 2007). In terms of market access, the COMESA Free Trade Area was signed on 31 October 2000 by nine countries. It is said to be the first free trade area under the African Union. Presently thirteen COMESA country members trade on a full duty and quota free consensus, these countries are namely: Burundi, Djibouti, Egypt, Kenya, Madagascar, Malawi, Mauritius, Rwanda, Sudan, Zambia, Zimbabwe, the Seychelles and the Union of Comoros. Non-FTA members in COMESA include: the DR Congo, Eritrea, Swaziland, Uganda, Ethiopia and South Sudan (Mauritius Chamber of Commerce and Industry, 2013).

4.2.2 Angola's economic environment

Angola's economy is mainly developed by the oil exploitation and diamond sectors. Oil production and its activities contribute roughly 85% of GDP and diamond trade contributes around 5%. Most of the people resort to subsistence agriculture to provide themselves with livelihood, yet almost half of the population's food is imported. Despite the fact that there is a boom in reconstructing Angola, much of the infrastructure is still damaged and/or undeveloped due to mainly the long civil war. Important to note is also that consumer inflation declined from 325% in 2000 to 14% in 2011. Again the high oil price helped Angola to turn its budget deficit of 8.6% of GDP in 2009 into 7.5% of GDP of surplus (CIA, 2012). This major dependence on oil exploitation and diamond trade expose the country to serious uncertainty within the national economy. Nowadays, it is known that countries that rely more on their natural resources are remaining behind because a lot of these countries tend to neglect investing in human capital for development purposes. This situation can put severe threats for the country at all levels, for example, the government budget and public employment programmes. When the uncertainty arises, it is likely to cut off the buying power

of Angola and affect the standard of living. Any change in the oil price will affect the Angolan economy because of the quasi dependence on oil exploitation.

Another big challenge is the urban poverty, there is an increasing threat as the younger generation grows, hence if the government fails to satisfy their demands for a good and decent standard of living, this phenomenon will generate or/and increase political instability and risk. In 2010 for example, oil and mining products accounted for 97.6 percent of total exports from Angola to the European Union which is one of its most important trading partner. The global financial economic crisis in 2008 to 2009 highlighted the risk of Angola's narrow economy: in 2008 Angolan GDP growth was 23.9 percent, in 2009 it was 13.8 percent, in 2009 it was 2.4 percent and 1.6 percent the following year (Vines & Weimer, 2011).

Angola has shown a positive growth in terms of its purchasing power. Angola's GDP (PPP) increased from US\$ 108 billion in 2009, to US\$ 111.7 billion in 2010, to US\$ 115.9 billion in 2011, showing a positive growth rate of 2.4% in 2009, 3.4 % in 2010 and 3.7 % in 2011. Angola was ranked 67th in terms of world GDP (PPP) in 2011. GDP per capita (PPP) was US\$ 5 800 in 2009, US\$ 5 900 in 2010 and \$ 5 900 in 2011. In 2008 Angola's GDP composition by sector was 9.6% in agriculture, 65.8% for the industry and 24.6% in the services sector. The inflation rate consumer price was 14.5% and 14.3% in 2010 and 2011, respectively.

In 2003, labour force by occupation in agriculture was 85% and 15 % in industry and services. The sector that contributes most to total GDP employs much less labour than agriculture. In 2006 the population below the poverty line was estimated at 40.5%. Agricultural products are mainly: bananas, sugarcane, coffee, sisal, maize, cotton, cassava, tobacco, vegetables, plantains, livestock, forest products and fish (CIA, 2012).

The end of civil war caused an economic boom brought about by the increase of oil production and prices. Angola experienced a growth rate of 17 percent between 2003 and 2008, and it ranked among the three fastest growth rates in the world (Santos, Ojukwu & Martin, 2011).

Table 34: Key Angolan Macroeconomic Trends 2005-2010

| | 2005 | 2006 | 2007 | 2008 | 2009 | 2010* |
|--------------------------|------|------|------|------|------|-------|
| GDP Growth (%) | 20.6 | 18.6 | 20.3 | 13.4 | 0.7 | 5.9 |
| Oil S. Growth (%) | 23.1 | 13.1 | 20.3 | 13.3 | 0.9 | 5.0 |
| Non-Oil Gr. (%) | 14.1 | 27.5 | 20.1 | 14.8 | 8.2 | 6.6 |
| Inflation (%) | 18.5 | 12.2 | 11.8 | 13.2 | 14.0 | 13.0 |
| Ext. C.A.** | 16.8 | 25.2 | 15.9 | 7.6 | -5.2 | 2.7 |
| Gross FCR*** | 4.1 | 8.6 | 11.3 | 17.8 | 13.3 | 17.2 |
| Ext. Debt-GDP | 39.9 | 16.8 | 12.5 | 11.4 | 21.1 | 22.2 |
| Fiscal Balance** | 6.5 | 6.6 | 14.2 | 14.3 | -4.4 | 0.7 |

Source: Santos, et al. (2011)

4.2.3 Angola's political environment

After the end of the civil war in 2002 that had lasted 27 years, Angola started to rebuild its economy. In terms of demography, the loss of lives was about of 1.5 million and four million people have been displaced. The legislative elections were held in September 2008 and the promised election in 2009 was postponed by the new constitution in 2012. The alternative of the actual president is not very predictable, yet the country has made progress in the past years since the end of civil war. Angola is one of the African wealth nations in natural resources that make it an emerging economy in Africa. The president currently in power has ruled since 1979, his succession makes serious uncertainty for future political stability. Given the dominance of the current president (José Eduardo Dos Santos), his succession could usher in period of uncertainty (Vines & Weimer, 2011).

4.2.4 Angola's communication and transportation

Angola is 1 246 700 square km. There are a great number of telephone users in Angola, with already 8.9 million subscribers of mobile cellular phones in 2009. In 2010 there were about two fixed-lined phones per 100 people. All together fixed lined and mobile cell phones were nearly 70 telephones per 100 inhabitants. In general, the broadcast and media are controlled by the government in the nation. Yet about 606 700 inhabitants were using internet in 2009 in Angola.

In 2012, Angola had 176 airports of which only 30 airports had paved runways. In 2008 the length of the total railways was 2 764 km. This length is not sufficient compared with the country surface. When it comes to roadways, the country has a total of 51 429 km, only 5 349 km were paved as oppose to 46 080 km unpaved in 2001. Waterways were 1 300 km in 2011.

The types of merchant marine and numbers in 2010 were: cargo 1, petroleum tanker 2, roll on/roll off 1, chemical tanker 1 (CIA, 2012).

The mode of transportation in Angola has improved significantly since the end of civil war in 2002; however there are still numerous problems concerning the infrastructure in terms of trade and travellers because some areas have impassable roadways, non-existent railways and/or other possible mode of transportation. Problems related to roads infrastructure become more serious during the rainy season, for example impassable dirt roads inside and outside the capital. Transportation channels are being improved by the Angolan government, commercial agents and NGOs.

Table 35: SWOT Analysis: Angola

| | Strengths/Opportunities | Threats/Weaknesses |
|-----------------------|--|--|
| Trade | Angola is a member of SADC South Africa as well; the positive aspect is that the policy in SADC is directed towards a free trade agreement. There has been increasing bilateral trade flow between Angola and South Africa, it is a signal of good diplomatic relations. | Angola trade with other countries that seem to be more favourable than South Africa even if they are distant countries, such as Brazil, Portugal, etc. and these countries are very competitive in the Market. |
| Political environment | The government has engaged significantly to rebuild the country and to raise the economy after the civilian war. There is increasingly diplomatic relation between South Africa and Angola. | The president currently in power has ruled since 1979, his succession makes serious uncertainty for the future political stability. |
| Economic environment | Positive growth in terms its purchasing power, hence an increased GDP per capita coupled with population growth. | The quasi total dependence on oil exploitation and diamond expose the country to serious uncertainty within the national economy. When uncertainty arises, it might sensibly cut off the buying power of Angolan and truly affects they welfare. The number of population below the poverty line is quite big. |
| Social environment | Like any other country in Sub Saharan Africa, there is an important population growth in Angola. Different people and different culture lead to market and product diversification. | Education, health and security are still an issue in Angola. Poverty in the young population can generate political risk and instability. Problems of communication due to different languages (Portuguese in Angola and English in South Africa) |

| | Strengths/Opportunities | Threats/Weaknesses |
|---------------------------|--|---|
| Technological environment | South Africa has good equipment in terms technology to meet Angola's requirements in quality and product presentation. | Much of the infrastructure is still damaged and/or undeveloped due to different factors mainly the long civil war. There are still severe problems related to road infrastructure buildings and technology readiness. |

Source: Own compilation based on relevant literature

4.2.5 South Africa trade performance in Angola for *fresh apples* (HS 080810)

South Africa was by far the greatest exporter of apples to Angola, in 2011. 92.5 % of Angola's apple imports were from South Africa, followed by the three main competitors Portugal (3.4%), Namibia (2.5%) and Argentina (1.1%). South Africa exported about US\$ 14 602 thousand worth of apples to Angola during 2011.

Angola is a growing market both in value and in quantity. The growth per annum was 30% and 29% in value and in quantity respectively from 2007 to 2011. Nevertheless imports from South Africa have grown slower than Angola's total imports of *fresh apples* (HS 080810). The growth of imports in the sector from South Africa was 26% in value and 23% during the same period. Portugal (Fig. 30), South Africa's main competitor in Angola, experienced more growth than South Africa. Its growth was 81% and 98% in value and in quantity respectively. It is clear that South Africa is losing market share in Angola for fresh apples while Portugal is gaining it. There was a positive trend from 2010 to 2011, a period during which Angola's import growth was 6% while imports from South Africa grew more in value, namely 66%. Import growth from Portugal during the same period (2010 to 2011) was 271% (ITC, 2012).

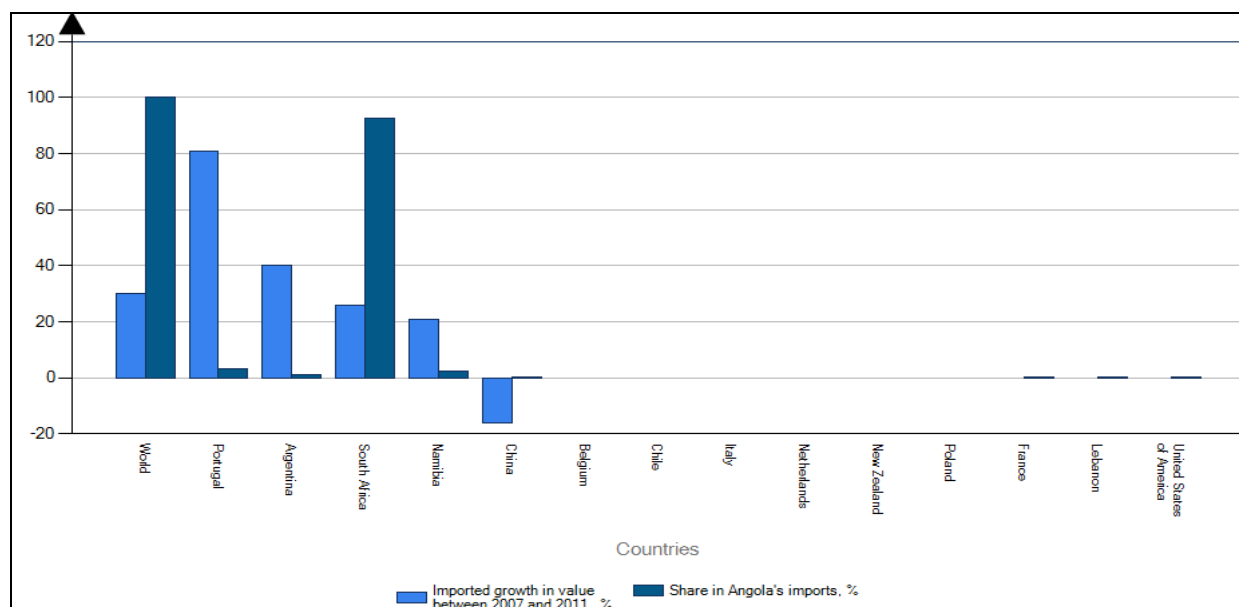


Figure 30: Suppliers of *fresh apples* (HS 080810) imported by Angola in 2011

Source: ITC (2012)

Time series in figure 31 shows the fluctuation of Angola's imports of fresh apples from South Africa and its main competitors. Angola's imports from South Africa have been gradually increasing during 2002 to 2008, but a steady decrease happened between 2008 and 2009 (cause) and restarted increasing gradually from 2009 to 2011 (ITC, 2012).

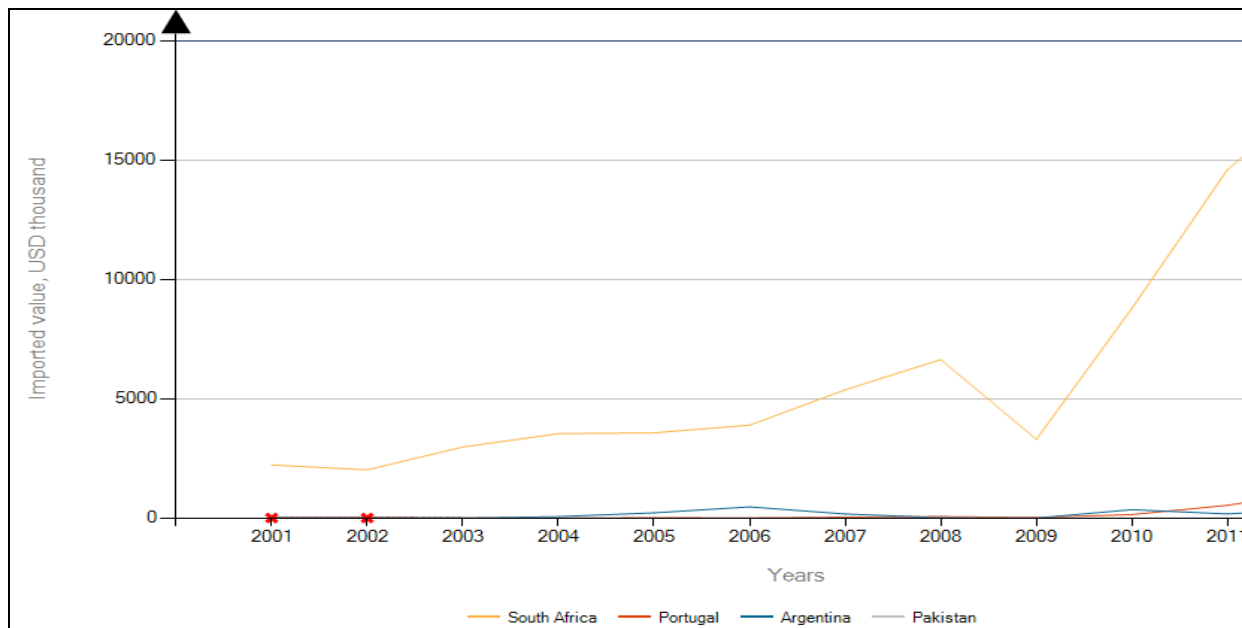


Figure 31: Supplier of *fresh apples* (HS 080810) to Angola (from 2001 to 2011)

Source: ITC (2012)

4.2.5.1 Angola applied tariff for fresh apples (HS 080810)

There is no tariff advantage for South Africa or South Africa's main competitors in the market of *fresh apples* (HS 080810) in Angola. South Africa dominated the market with roughly 92.5 % of market share in 2011. All South Africa's main competitors face 10.0% applied tariffs by Angola.

Table 36: Tariff faced and tariff advantage in Angola for *fresh apples* (HS 080810)

| | Market share in 2011 (%) | Tariffs faced | Trade Regime | Tariff advantage for South Africa (yes/no) |
|---|--------------------------|------------------------------|-----------------------|--|
| South Africa | 92.5 | 10.00% | MFN mduties (Applied) | no |
| South Africa's main competitors in target market | Market share in 2011 (%) | Tariffs faced by competitors | Trade Regime | Tariff advantage for competitors (yes/no) |
| Portugal | 3.4 | 10.00% | MFN mduties (Applied) | no |
| Namibia | 2.5 | 10.00% | MFN mduties (Applied) | no |
| Argentina | 1.1 | 10.00% | MFN mduties (Applied) | no |

Source: Compiled with the ITC (2012) data

4.2.5.2 Market place of fresh apples in Angola

Fresh apples are found in supermarkets in urban areas especially in Luanda the capital city of Angola. Often locally produced and sometimes imported fruits are sold in traditional markets or/and road side markets in the country. These markets are the best places where one can buy locally grown products at reasonable prices. Most of the time, fruits such as apples, pears, etc. in supermarkets are imported. Locally produced fruits can also be found in supermarkets. These fruits are well selected and presented. Their quantities in supermarkets are inferior to the quantities in traditional markets because supermarkets are very demanding when it comes to quality and safety standards. Imported fruits from developed countries and from some developing countries are the ones that usually meet supermarkets' quality and standards requirements (Weatherspoon & Reardon, 2003).

People in Angola tend to buy increasingly in supermarkets rather than the traditional market. This is due to the fast growing national economy and the mixture of culture that change buying behaviours brought about by different expatriates. There are a number of supermarkets in Angola located in urban areas, namely: Continent (a Portuguese supermarket that will be opening in 2013), OK, Shoprite (which is known to hold a geographical spread in Africa) and Usave.

In Angola small neighbourhood stores, regular supermarkets, grocery stores and hypermarkets have a share of food distribution of roughly 20 percent. This distribution system falls in the formal category of retail food market. Yet 80 percent is said to be informal and it is represented by street vendors and/or road markets as well as unregulated wet markets. With the rapid Shoprite spread and other up-coming supermarkets like Kero, the formal market of 20 percent will expand remarkably in the next few years. It is important to note that more

than 90 percent of all food products in retail stores, hotels and restaurants are imported (Jacquette & Rubio, 2013).

Table 37: Global Competitiveness Index 2012-2013 for exporters of *fresh apples* (HS 080810) to Angola

| Pillars | Portugal | | Namibia | | Argentina | | South Africa | |
|---|-------------|---------|-------------|---------|-------------|---------|--------------|---------|
| | Score (1-7) | Ranking | Score (1-7) | Ranking | Score (1-7) | Ranking | Score (1-7) | Ranking |
| 1 Institutions | 4.3 | 46 | 4.2 | 52 | 2.8 | 138 | 4.4 | 43 |
| 2 Infrastructure | 5.5 | 24 | 4.2 | 59 | 3.6 | 86 | 4.4 | 63 |
| 3 Macroeconomic Environment | 3.9 | 116 | 4.5 | 84 | 4.3 | 94 | 4.1 | 69 |
| 4 Health and primary education | 6.2 | 30 | 4.4 | 120 | 5.8 | 59 | 4.6 | 132 |
| 5 Higher Education and Training | 5 | 30 | 3.1 | 119 | 4.6 | 53 | 3.9 | 84 |
| 6 Goods markets efficiency | 4.3 | 61 | 4.2 | 87 | 3.2 | 140 | 4 | 32 |
| 7 Labor markets efficiency | 3.8 | 123 | 4.3 | 74 | 3.3 | 140 | 4.7 | 113 |
| 8 Financial Market development | 3.7 | 99 | 4.4 | 47 | 3.2 | 131 | 3.9 | 3 |
| 9 Technological readiness | 5.3 | 28 | 3.2 | 104 | 3.8 | 67 | 5.7 | 62 |
| 10 Market size | 4.3 | 48 | 2.6 | 120 | 4.9 | 23 | 4 | 25 |
| 11 Business sophistication | 4.2 | 54 | 3.6 | 102 | 3.7 | 89 | 4.8 | 38 |
| 12 Innovation | 3.9 | 31 | 2.9 | 101 | 3 | 91 | 4.3 | 42 |
| Global index & Rank in the world | 4.4 | 49 | 3.9 | 92 | 3.9 | 94 | 3.5 | 52 |

Source: Compiled with Schwab (2012) data on the Global Competitiveness Report

Portugal, South Africa's main competitor in Angola for *fresh apples* (HS 080810) occupied the 49th position during 2012-2013 in the Global Competitiveness Index (Schwab, 2012); South Africa occupied the 52nd position during the same period. Other two South Africa's main competitors of the same products in Angola occupied 92nd and 94th position for Namibia and Argentina respectively. South Africa has stronger institutions than all its competitors of fresh apples in Angola and it ranks 43rd when all its competitors remain behind by occupying the 46th, 52nd and 138th position for Portugal Namibia and Argentina respectively. In terms of infrastructure Portugal and Namibia have more developed infrastructure than South Africa, Portugal ranks 24th, Namibia 59th and South Africa the 63rd in the sector. In the sector of technological readiness and innovation Portugal remains on top of all other three competitors the market of apples in Angola.

4.2.6 South Africa trade performance in Angola for *fresh or dried oranges* (HS 080510)

Fresh or dried oranges: South Africa is by far Angola's trade partner for fresh or dried oranges. In 2012 Angola imported roughly 66% of its total imports of oranges (HS 080510) from South Africa, which represented a value of US\$ 2.537 million (ITC, 2013). South African main competitors for oranges (HS 080510) in Angola are Portugal, Egypt and Argentina. Shares in Angola's imports from these countries in 2012 are 13%, 8% and 5% for Portugal, Egypt and Argentina respectively (ITC, 2013).

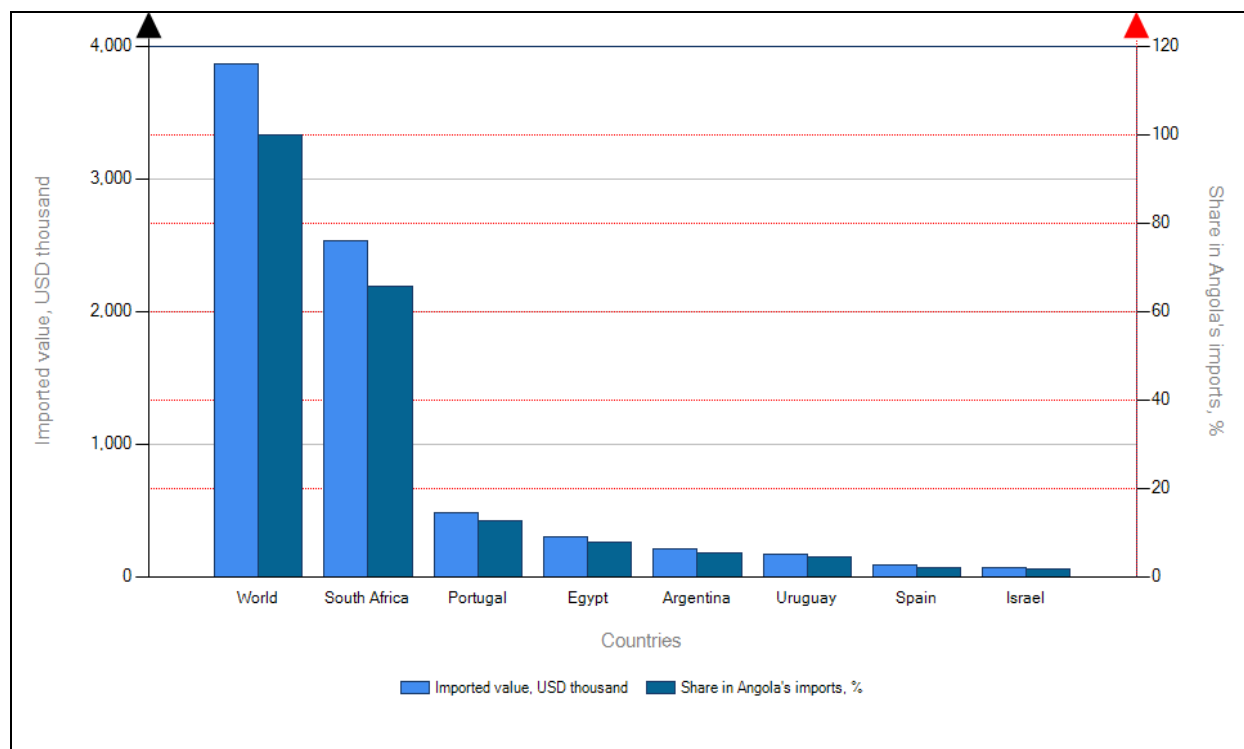


Figure 32: Imported value and shares of *fresh or dried oranges* (HS 080510) in Angola in 2012

Source: ITC (2013)

As illustrated in figure 33, South Africa was a quasi-unique country to export *fresh or dried oranges* (HS 080510) to from 2001 to 2009. Angola import from South Africa went from US\$ 363 thousand in 2001 to US\$ 2.537 million in 2012. South Africa's main competitors in Angola for oranges (HS 080510), namely: Portugal: Egypt and Argentina were far below. They started growing their exports to Angola from 2009. In the meantime, South Africa's exports have gradually increased from 2009 to 2012. Angola's import growth from South Africa of oranges (HS 080510) from 2008 to 2012 was 48%. The combination of market share and import growth shows that South Africa is by far dominating the market of *fresh or dried oranges* (HS 080510) in Angola.

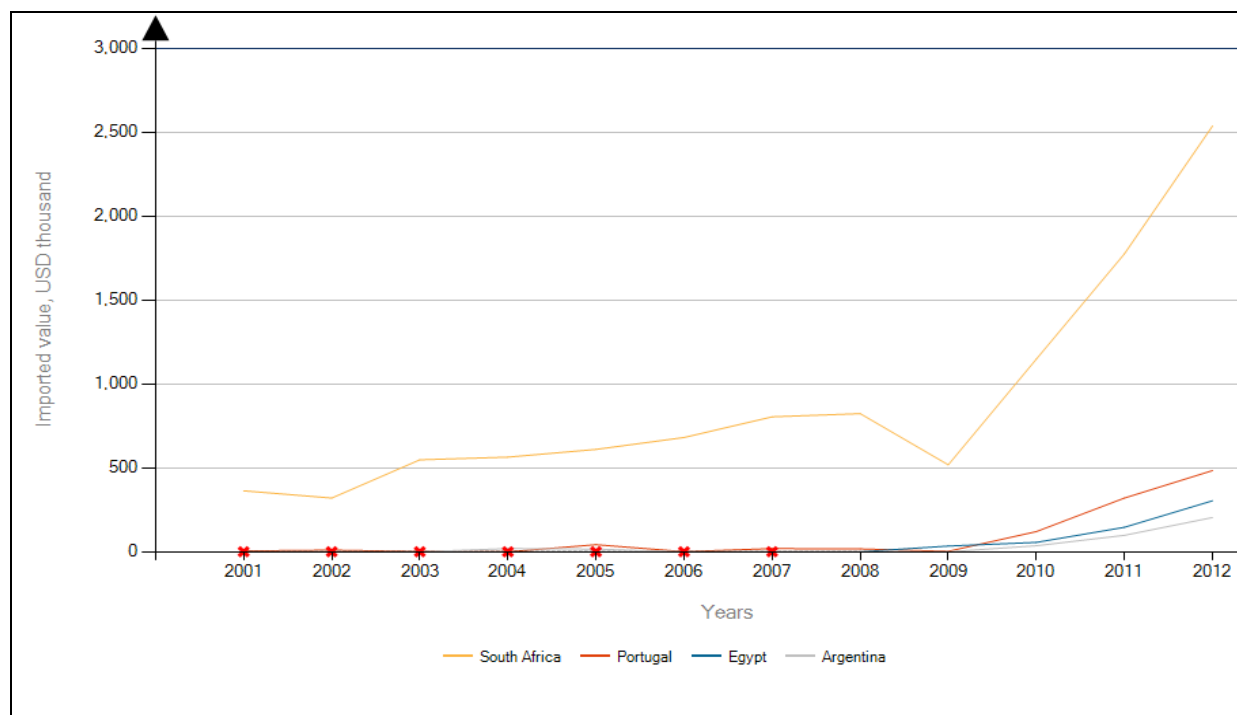


Figure 33: Suppliers of *fresh or dried oranges* (HS 080510) imported by Angola (2001-2012)

Source: ITC (2013)

4.2.6.1 Angola applied tariff for fresh or dried oranges (HS 080510)

South Africa's market share in Angola's market of *fresh or dried oranges* (HS 080510) is very high. In 2012 it was roughly 65.60% out of Angola's total imports of the product. The market is dominated by Angola. Main South Africa's competitors have quite small percentage namely 12.50%, 7.90% and 5.30% for Portugal, Egypt and Argentina respectively. There is no tariffs advantage for any main competitor in the market, they all face 10.00% and Angola follows the most favourable nation duties applied tariffs' regime for all of them.

Table 38: Tariff faced and tariff advantage in Angola for *fresh or dried oranges* (HS 080510)

| | Market share in 2012 (%) | Tariffs faced | Trade Regime | Tariff advantage for South Africa (yes/no) |
|---|---------------------------------|-------------------------------------|----------------------|---|
| South Africa | 65.60% | 10% | MFN duties (applied) | no |
| South Africa's main competitors in target market | Market share in 2012 (%) | Tariffs faced by competitors | Trade Regime | Tariff advantage for South Africa (yes/no) |
| Portugal | 12.50% | 10% | MFN duties (applied) | no |
| Egypt | 7.90% | 10% | MFN duties (applied) | no |
| Argentina | 5.30% | 10% | MFN duties (applied) | no |

In the sector of *fresh or dried oranges* (HS 080510), South Africa is the main exporter of this product to Angola. In terms of Global Competitiveness of main South Africa's competitors in

Angola for this product, Portugal is the most productive and ranks 49th. However, South Africa is by far more competitive than Argentina and Egypt. In terms of business sophistication, South Africa is ahead of Portugal, Egypt and Argentina.

Table 39: Global Competitiveness Index 2012-2013 for exporters of *fresh or dried oranges* (HS 080510) to Angola

| Pillars | Portugal | | Egypt | | Argentina | | South Africa | |
|---|-------------|---------|-------------|---------|-------------|---------|--------------|---------|
| | Score (1-7) | Ranking | Score (1-7) | Ranking | Score (1-7) | Ranking | Score (1-7) | Ranking |
| 1 Institutions | 4.3 | 46 | 3.6 | 96 | 2.8 | 138 | 4.4 | 43 |
| 2 Infrastructure | 5.5 | 24 | 3.6 | 83 | 3.6 | 86 | 4.4 | 63 |
| 3 Macroeconomic environment | 3.9 | 116 | 3.1 | 138 | 4.3 | 94 | 4.1 | 69 |
| 4 Health and primary education | 6.2 | 30 | 5.3 | 94 | 5.8 | 59 | 4.6 | 132 |
| 5 Higher education and training | 5 | 30 | 3.3 | 109 | 4.6 | 53 | 3.9 | 84 |
| 6 Goods market efficiency | 4.3 | 61 | 3.8 | 125 | 3.2 | 140 | 4 | 32 |
| 7 Labor market efficiency | 3.8 | 123 | 3.1 | 142 | 3.3 | 140 | 4.7 | 113 |
| 8 Financial market development | 3.7 | 99 | 3.7 | 102 | 3.2 | 131 | 3.9 | 3 |
| 9 Technological readiness | 5.3 | 28 | 3.4 | 91 | 3.8 | 67 | 5.7 | 62 |
| 10 Market size | 4.3 | 48 | 4.8 | 29 | 4.9 | 23 | 4 | 25 |
| 11 Business sophistication | 4.2 | 54 | 3.8 | 83 | 3.7 | 89 | 4.8 | 38 |
| 12 Innovation | 3.9 | 31 | 2.8 | 109 | 3 | 91 | 4.3 | 42 |
| Global index & rank in the world | 4.4 | 49 | 3.7 | 107 | 3.9 | 94 | 3.5 | 52 |

Source: Compiled with Schwab (2012) data on the Global Competitiveness Report

4.2.7 South Africa trade performance in Angola for *sparkling wine* (HS 220410)

Sparkling wine: Angola's market of *sparkling wine* (HS 220410) is dominated by South Africa; in 2011, Angola imported US\$ 14 220 thousands worth of value from South Africa. During the same period share of Angola's import of *sparkling wine* (HS 220410) was 57.3% for South Africa as well as 28.8%, 11.1% and 1.8% from Portugal, France and Namibia respectively (ITC, 2012). The latter are South Africa main competitors in Angola for *sparkling wine* (HS 220410).

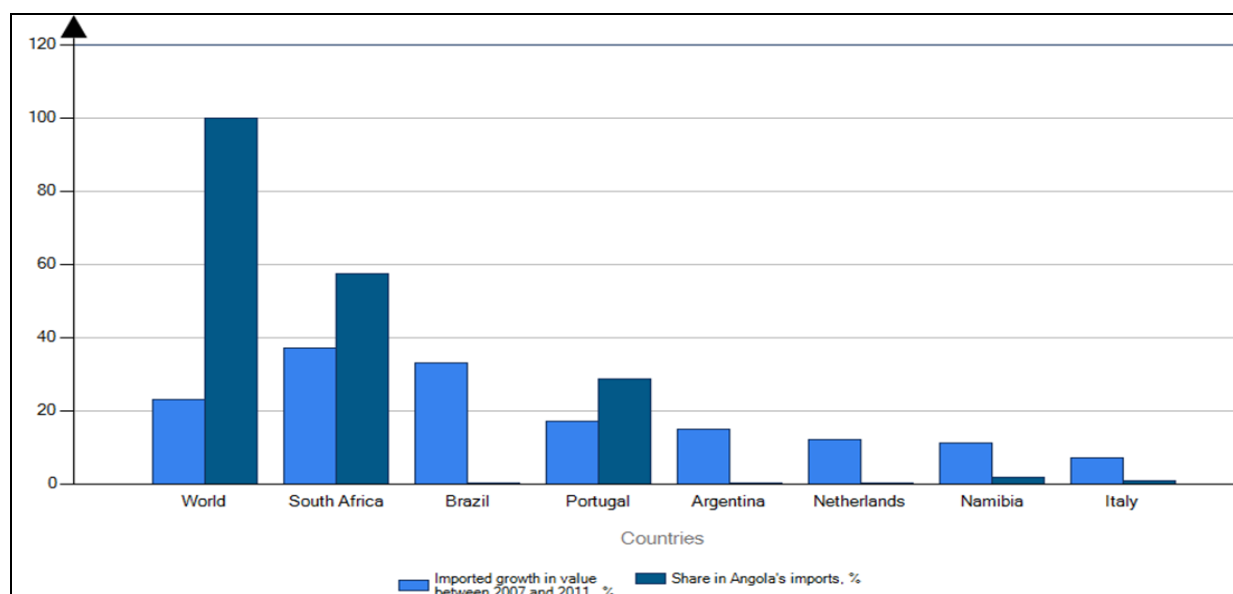


Figure 34: Shares of suppliers of *sparkling wine* (HS 220410) in 2011 and their import growth in value in Angola between 2007 & 2011

Source: ITC (2012)

Imports of *sparkling wine* (HS 220410) have been increasing in Angola since 2001 as shown in figure 9. Until 2008 imports from all countries, including South Africa, grew almost at the same level. During the period 2009-2011 South Africa experienced a gradual steady growth and distinguished itself from other main competitors. The growth of imports from South Africa resulted in it gaining more than 50% of market share of *sparkling wine* (HS 220410) in Angola. South Africa thus occupies the first position, followed by Portugal, France and Namibia. Angola's imports of *sparkling wine* (HS 220410) grew by 23% in value between 2007-2011, while imports from South Africa during the same period grew by 37%, Portugal 17% and France 2% (ITC, 2012). It means that South Africa is gaining market share in Angola in the selected sector. In contrast, other exporters to Angola are losing market share because their import-growth in Angola are lower than Angola's total import growth in the selected sector.

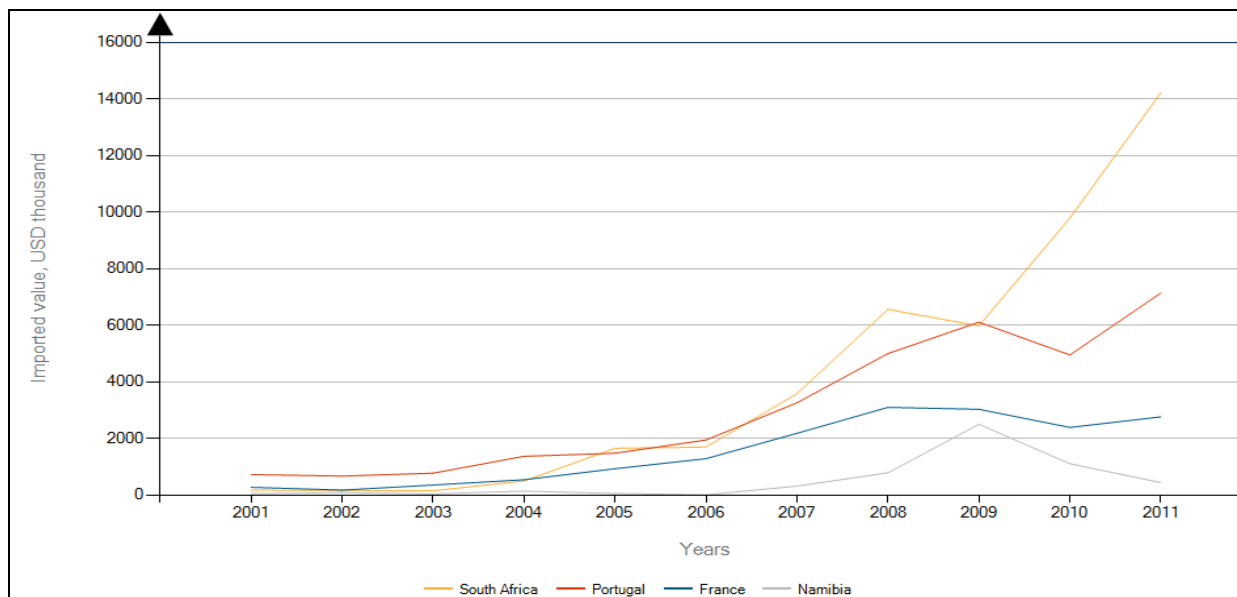


Figure 35: Suppliers of *sparkling wine* (HS 220410) imported by Angola (2001-2011)

Source: ITC (2012)

4.2.7.1 Angola applied tariff for sparkling wine (HS 220410)

There is no advantage or disadvantage for South Africa in the market of *sparkling wine* (HS 220410) in Angola. Yet South Africa has the highest market share in Angola, in 2011 the share of South Africa amounted at 57.3%. All main competitors face applied tariff of 30% and they follow the trade regime of most favourable duties applied.

Table 40: Tariff faced and tariff advantage in Angola for *sparkling wine* (HS 220410)

| | Market share in 2011 (%) | Tariffs faced | Trade Regime | Tariff advantage for South Africa (yes/no) |
|---|---------------------------------|-------------------------------------|----------------------|--|
| South Africa | 57.3 | 30.00% | MFN duties (Applied) | no |
| South Africa's main competitors in target market | Market share in 2011 (%) | Tariffs faced by competitors | Trade Regime | Tariff advantage for competitors (yes/no) |
| Portugal | 28.8 | 30.00% | MFN duties (Applied) | no |
| France | 11.1 | 30.00% | MFN duties (Applied) | no |
| Namibia | 1.8 | 30.00% | MFN duties (Applied) | no |

Source: Compiled with the ITC (2012) data

4.2.7.2 Market place and distributors of wine in Angola

In Angola, wine is sold in supermarkets, restaurants and in Luxury hotels. Informal shops that sale snacks, beer and wine are commonly called Cuca shops in Angola. Beer and soft drinks can be found in most cities and towns (Siiskonen, 1994); while restaurants in Luanda will

offer some of the best Portuguese, French and South African wines. Supermarkets offer direct access to the marketplaces and they are very powerful and demanding buyers.

Angola, now the second market for wine in Africa after South Africa, the market is even growing fast; for example in 2002 the total value of wine market in Angola was \$US 24 million; in 2006 US\$ 80 million, roughly 229% rate of market growth. Portugal and Spain are the main wine suppliers, they have about 87% of market share; South Africa's share is quite small, roughly 4%. In terms of distribution, there is system called Programme of Restructuring the System of logistics and Distribution of Essential Goods to the Population (PRESILD) which was created in 2006 to modernize the market. The project aims at establishing district markets, 31 supermarkets, pedagogical shops, shopping centres, distribution and logistical centres, 26 surrounding shops as well as 4 logistic warehouses. Due to the poor transportation in certain areas, many firms reach rural market via wholesale arrangements with entrepreneurs because most local companies are connected with rural (WESGRO, 2010).

Angola does not have any legal binding on alcohol advertising or on product placement. There is no sale promotion regulation or legally binding regulation on alcohol sponsorship in Angola. There are no restrictions on premise sales of alcoholic beverage; alcohol is sold any time, any day, in any quantity and at any available place. Nevertheless, the selling and/or the buying age are a minimum of 15 year old individuals (World Health Organization, 2011).

Table 41: Global Competitiveness Index 2012-2013 for exporters of *sparkling wine* (HS 220410) to Angola

| Pillars | Portugal | | France | | Namibia | | South Africa | |
|---|-------------|---------|-------------|---------|-------------|---------|--------------|---------|
| | Score (1-7) | Ranking | Score (1-7) | Ranking | Score (1-7) | Ranking | Score (1-7) | Ranking |
| 1 Institutions | 4.3 | 46 | 4.8 | 32 | 4.2 | 52 | 4.4 | 43 |
| 2 Infrastructure | 5.5 | 24 | 6.3 | 4 | 4.2 | 59 | 4.4 | 63 |
| 3 Macroeconomic Environment | 3.9 | 116 | 4.6 | 68 | 4.5 | 84 | 4.1 | 69 |
| 4 Health and primary education | 6.2 | 30 | 6.3 | 21 | 4.4 | 120 | 4.6 | 132 |
| 5 Higher Education and Training | 5 | 30 | 5.1 | 27 | 3.1 | 119 | 3.9 | 84 |
| 6 Goods markets efficiency | 4.3 | 61 | 4.5 | 46 | 4.2 | 87 | 4 | 32 |
| 7 Labor markets efficiency | 3.8 | 123 | 4.4 | 66 | 4.3 | 74 | 4.7 | 113 |
| 8 Financial Market development | 3.7 | 99 | 4.7 | 27 | 4.4 | 47 | 3.9 | 3 |
| 9 Technological readiness | 5.3 | 28 | 5.7 | 14 | 3.2 | 104 | 5.7 | 62 |
| 10 Market size | 4.3 | 48 | 5.8 | 8 | 2.6 | 120 | 4 | 25 |
| 11 Business sophistication | 4.2 | 54 | 5 | 21 | 3.6 | 102 | 4.8 | 38 |
| 12 Innovation | 3.9 | 31 | 4.9 | 17 | 2.9 | 101 | 4.3 | 42 |
| Global index & Rank in the world | 4.4 | 49 | 5.1 | 21 | 3.9 | 92 | 3.5 | 52 |

Source: Compiled with Schwab (2012) data on the Global Competitiveness Report

Portugal and Namibia may be referred to the comments mentioned above. France one the main South Africa's competitors of *sparkling wine* (HS 220410) market in Angola surpasses South Africa in a lot of factors of the Global Competitiveness Index rankings in which France ranks the 21st globally and South Africa ranks 52nd. Nevertheless, South Africa is ranked 3rd in financial market development sector and France 27th. South Africa also performs well in macroeconomic environment; it is more or less close to France level of performance and scoring 4.6 and 4.1 for France and South Africa respectively.

4.2.8 South Africa trade performance in Angola for *wine in containers of >2 litres* (HS 220429)

Wine in containers of >2l or bulk wine: in this sector, South Africa share in Angola's imports is very small at only 1% of Angola's imports in 2011. France, Portugal and Spain are South Africa's main competitors in Angola. Portugal had the biggest share of 67% and Spain 32% in 2011 and only 0.2% for France. Angola's imports from South Africa have decreased significantly. There has been a negative growth in value of -52% between 2007 and 2011. Nevertheless imports from France have increased by 28%, imports from Portugal have increased by 21% and imports from Spain have decreased by -12% between 2007 and 2011. Namibia has also experienced an important decrease of -51% (ITC, 2012). Angola's imports of *wine in containers of >2l* (HS 220429) from the world from 2007 to 2011 has almost experienced no growth (i.e. no surge, no shrinking).

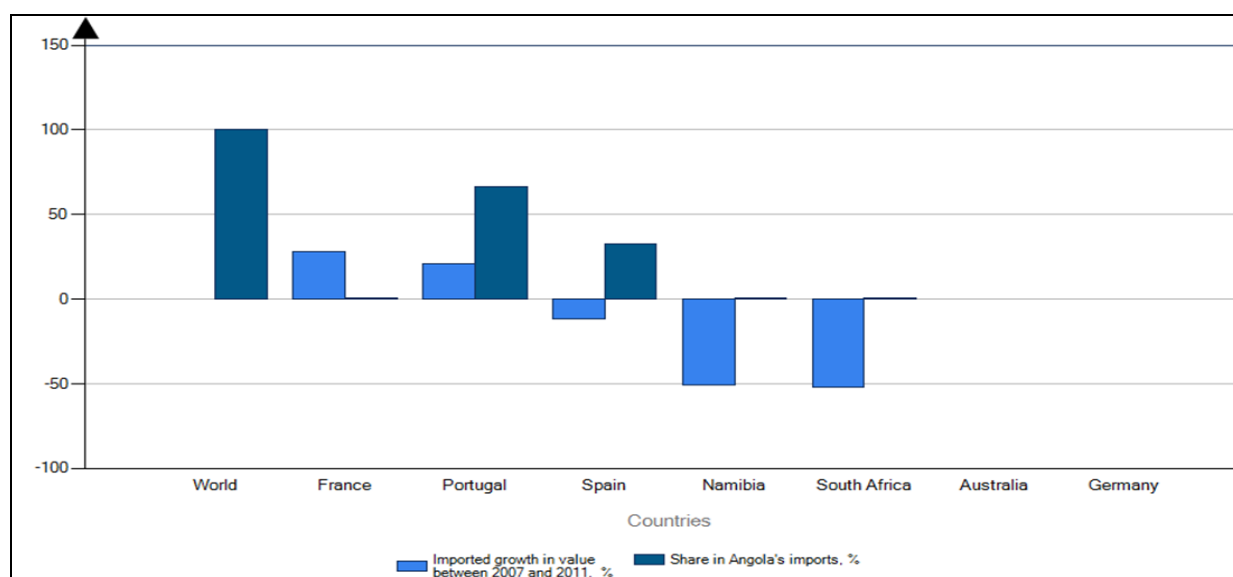


Figure 36: Shares of suppliers of *bulk wine* (HS 220429) in 2011 and their import growth in value in Angola between 2007 & 2011

Source: ITC (2012)

Portugal and Spain are actually the main exporters of *wine in containers of >2l* (HS 220429) to Angola. Angola gradually increased its imports from Portugal from 2001 and 2004, with small fluctuation between 2004 and 2007. Imports from Portugal started increasing gradually again from 2007 up to 2011. Angola's imports from South Africa were with no noteworthy fluctuations during the period 2001-2006, but there had been a gradual increase between 2006 and 2008 with a larger decrease between 2008 and 2011, thus causing South Africa to lose market share in Angola (ITC, 2012). Figure 36 illustrates the trend.



Figure 37: Main Suppliers of *bulk wine* (HS 220429) imported by Angola 2001-2011

Source: ITC (2012)

4.2.8.1 Angola applied tariff for wine in containers of >2l (220429)

Angola has four national tariff lines for *wine in containers of >2l* (HS 220429) as indicated in table 42. Three tariff lines are at 15.0%, but one is at 30.0% applied tariff for all main competitors and/or all main exporters. For *wine in containers of >2l* (HS 220429) Angola follows the MFN applied tariffs. There is no tariff advantage or disadvantage for any main competitor in Angola for *wine in containers of >2l* (HS 220429). South Africa's share in the market is very small, amounting to 0.7% in 2011. Portugal dominates the market by far with 66.7% market share, followed by Spain with 32.3% in 2011. South Africa exports more *wine in containers of >2l* (HS 220429) to the EU namely to Sweden, Germany, United Kingdom, Denmark, France, Netherlands, etc. while the European countries dominate the market of the same products in Angola. Proximity of the market does not appear to have a major impact on the choice of market, but the phenomenon can perhaps be explained by the fact that wine is

not a homogenous product. The shares in South Africa's exports of *wine in containers of >2l* (HS 220429) were of 22.6%, 21.9, 17.6%, 10.1% and 3.3% for Sweden, Germany, UK, Denmark and France respectively in 2011.

Table 42: Tariff faced and tariff advantage in Angola for *bulk wine* (HS 220429)

| | Market share in 2011 (%) | Tariffs faced | Trade Regime | Tariff advantage for South Africa (yes/no) |
|---|---------------------------------|-------------------------------------|----------------------|--|
| South Africa | 0.7 | | | |
| 22042910 | | 15.00% | MFN duties (Applied) | no |
| 22042920 | | 15.00% | MFN duties (Applied) | no |
| 22042930 | | 15.00% | MFN duties (Applied) | no |
| 22042990 | | 30.00% | MFN duties (Applied) | no |
| South Africa's main competitors in target market | Market share in 2011 (%) | Tariffs faced by competitors | Trade Regime | Tariff advantage for competitors (yes/no) |
| Portugal | 66.7 | | | |
| 22042910 | | 15.00% | MFN duties (Applied) | no |
| 22042920 | | 15.00% | MFN duties (Applied) | no |
| 22042930 | | 15.00% | MFN duties (Applied) | no |
| 22042990 | | 30.00% | MFN duties (Applied) | no |
| Spain | 32.3 | | | |
| 22042910 | | 15.00% | MFN duties (Applied) | no |
| 22042920 | | 15.00% | MFN duties (Applied) | no |
| 22042930 | | 15.00% | MFN duties (Applied) | no |
| 22042990 | | 30.00% | MFN duties (Applied) | no |
| France | 0.2 | | | |
| 22042910 | | 15.00% | MFN duties (Applied) | no |
| 22042920 | | 15.00% | MFN duties (Applied) | no |
| 22042930 | | 15.00% | MFN duties (Applied) | no |
| 22042990 | | 30.00% | MFN duties (Applied) | no |

Source: Compiled with the ITC (2012) data

Where:

- (HS 22042910): *grape wines nes, incl fort&grape must, unfermntd by add alc, in ctnr > 2l : vinho branco (i.e. white wine)*
- (HS 22042920): *grape wines nes, incl fort&grape must, unfermntd by add alc, in ctnr > 2l : vinho tinto (i.e. red wine)*
- (HS 22042930): *grape wines nes, incl fort&grape must, unfermntd by add alc, in ctnr > 2l: grape must with fermentation prevented or arrested by the addition of alcohol.*
- (HS 22042990): *grape wines nes, incl fort&grape must, unfermntd by add alc, in ctnr > 2l : outros(i.e. other)*

Table 43: Global Competitiveness Index 2012-2013 for exporters of *bulk wine* (HS 220429) to Angola

| Pillars | Portugal | | Spain | | France | | South Africa | |
|----------------------------------|-------------|---------|-------------|---------|-------------|---------|--------------|---------|
| | Score (1-7) | Ranking | Score (1-7) | Ranking | Score (1-7) | Ranking | Score (1-7) | Ranking |
| 1 Institutions | 4.3 | 46 | 4.2 | 48 | 4.8 | 32 | 4.4 | 43 |
| 2 Infrastructure | 5.5 | 24 | 5.9 | 10 | 6.3 | 4 | 4.4 | 63 |
| 3 Macroeconomic Environment | 3.9 | 116 | 4.2 | 104 | 4.6 | 68 | 4.1 | 69 |
| 4 Health and primary education | 6.2 | 30 | 6.1 | 36 | 6.3 | 21 | 4.6 | 132 |
| 5 Higher Education and Training | 5 | 30 | 5 | 29 | 5.1 | 27 | 3.9 | 84 |
| 6 Goods markets efficiency | 4.3 | 61 | 4.4 | 55 | 4.5 | 46 | 4 | 32 |
| 7 Labor markets efficiency | 3.8 | 123 | 4 | 108 | 4.4 | 66 | 4.7 | 113 |
| 8 Financial Market development | 3.7 | 99 | 3.9 | 82 | 4.7 | 27 | 3.9 | 3 |
| 9 Technological readiness | 5.3 | 28 | 5.3 | 26 | 5.7 | 14 | 5.7 | 62 |
| 10 Market size | 4.3 | 48 | 5.5 | 14 | 5.8 | 8 | 4 | 25 |
| 11 Business sophistication | 4.2 | 54 | 4.5 | 32 | 5 | 21 | 4.8 | 38 |
| 12 Innovation | 3.9 | 31 | 3.8 | 35 | 4.9 | 17 | 4.3 | 42 |
| Global index & Rank in the world | 4.4 | 49 | 4.6 | 36 | 5.1 | 21 | 3.5 | 52 |

Source: Compiled with Schwab (2012) data on the Global Competitiveness Report

Out of the 144 selected countries Spain is ranked 36th and South Africa is ranked 52nd. Spain is the second best competitor in the market of *wine in containers of >2l* (HS 220429) in Angola in terms of competitiveness, which reflects the level of productivity after France. South Africa surpasses Spain in terms of institutions, with 4.4 compared to 4.2 for Spain. Spain and South Africa ranked 48th and 43rd for institutions, respectively. Spain has more developed infrastructure than South Africa, as it is among the top 10 out of 144 countries ranked. In the sector South Africa ranks only 63rd with 4.4 score out of 7 whereas Spain scored 5.9 out of 7. Spain's score in education is higher than that of South Africa.

4.2.9 South Africa trade performance in Angola for *refined sugar* (HS 170199)

Refined sugar: Angola imported US\$ 147.6 million worth of *refined sugar* (HS 170199) from the world in 2011. Brazil is Angola's biggest trade partner in the sector. Angola imported US\$ 136.5 million worth of *refined sugar* (HS 170199) from Brazil in 2011 and US\$ 4.49 million from South Africa, which is Angola's second biggest trade partner in the product. Angola imported US\$ 3.12 million and US\$ 2.39 million worth of sugar from Portugal and Egypt respectively.

Brazil's share in Angola's imports was by far the largest at 93% in 2011. It is followed by South Africa and Portugal with shares of 3% and 2%, respectively, in Angola's imports. Angola's growth in import value in the sector between 2007 and 2011 was 15%. Angola's import growth from Brazil in the same sector during the same period was 19%, from Portugal 22%, from China 27%. Angola's import growth from South Africa was negative during 2007

and 2011, at -25%. Brazil is gaining import share in Angola because Angola's import growth from Brazil is greater than Angola's world import growth in the sector. China and Portugal are gaining market shares as well.

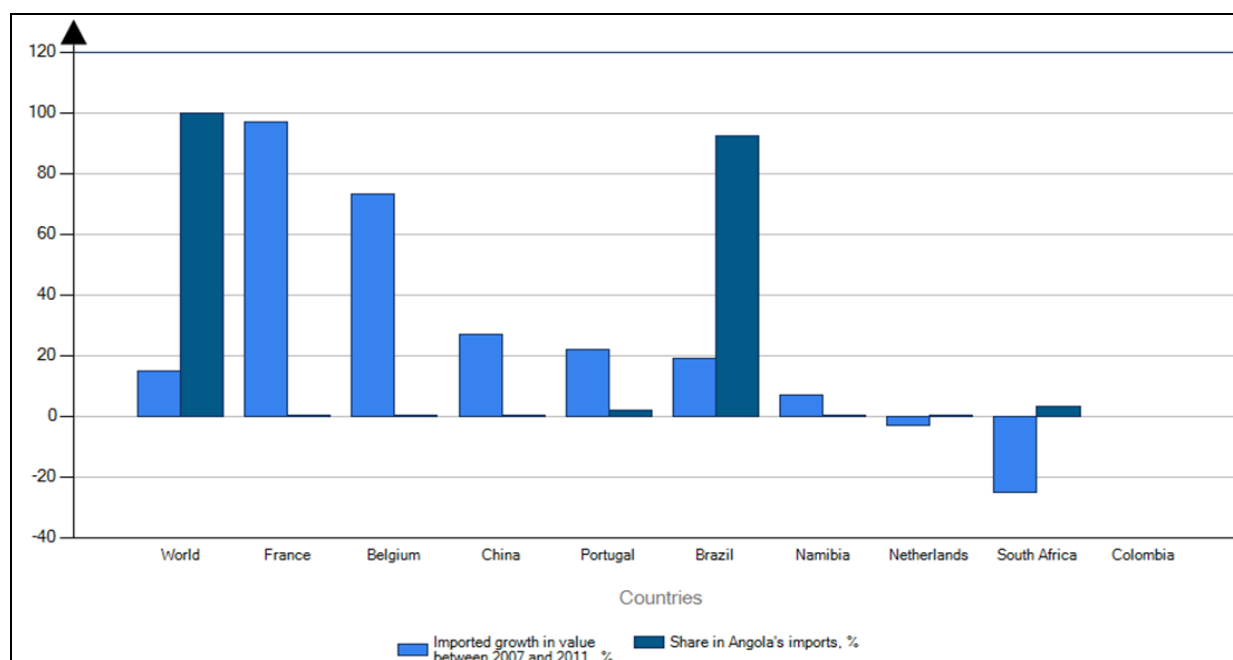


Figure 38: Shares of suppliers of *refined sugar* (HS 170199) in 2011 and their import growth in value in Angola between 2007 & 2011

Source: ITC (2012)

4.2.9.1 Angola applied tariff for *refined sugar*: (HS 170199)

There is no tariff advantage or disadvantage for any competitor in the market of *refined sugar* (HS 170199) in Angola as they all face 5.0% applied tariffs and Angola applies the MFN duties. The market is dominated quasi totally by Brazil with 92.5% market share. South Africa is the second largest in the market after Brazil, but its market share amounted to only 3% in 2011. South Africa exported *refined sugar* (HS 170199) to Mozambique (share in SA exports 29.4%), Zimbabwe (17.7%), Uganda (12.6%), Madagascar (9.6%), Kenya (8%), Tanzania (4.9%) and Angola (4.6%) in 2011. Brazil is well understood to be the world's biggest exporter of *refined sugar* (HS 170199) due to its production capacity and its economies of scales established over several years. Brazil's share in the world exports was estimated at 20.2 %, followed by France with 10% in 2011.

Table 44: Tariff faced and tariff advantage in Angola for *refined sugar* (HS 170199)

| | Market share in 2011 (%) | Tariffs faced | Trade Regime | Tariff advantage for South Africa (yes/no) |
|---|-------------------------------------|---|----------------------|--|
| South Africa | 3 | | | |
| 17019910 | | 5.00% | MFN duties (Applied) | no |
| 17019920 | | 5.00% | MFN duties (Applied) | no |
| 17019990 | | 5.00% | MFN duties (Applied) | no |
| South Africa's main competitors in target market | Market share in 2011 (%) | Tariffs faced by competitors | Trade Regime | Tariff advantage for competitors (yes/no) |
| Brazil | 92.5 | | | |
| 17019910 | | 5.00% | MFN duties (Applied) | no |
| 17019920 | | 5.00% | MFN duties (Applied) | no |
| 17019990 | | 5.00% | MFN duties (Applied) | no |
| Portugal | 2.1 | | | |
| 17019910 | | 5.00% | MFN duties (Applied) | no |
| 17019920 | | 5.00% | MFN duties (Applied) | no |
| 17019990 | | 5.00% | MFN duties (Applied) | no |
| Egypt | 1.6 | | | |
| 17019910 | | 5.00% | MFN duties (Applied) | no |
| 17019920 | | 5.00% | MFN duties (Applied) | no |
| 17019990 | | 5.00% | MFN duties (Applied) | no |

Source: Compiled with the ITC (2012) data

Where:

- (HS 17019910): *refined sugar, in solid form, nes : acondicionados para venda a retalho (i.e. put up for retail sale)*
- (HS 17019920): *refined sugar, in solid form, nes : não acondicionados para venda a retalho (i.e. not put up for retail sale)*
- (HS 17019990): *refined sugar, in solid form, nes : outros (i.e. other)*

4.2.9.2 Market place, distributors and consumption of sugar in Angola

In Angola, sugar is distributed in traditional markets, in street markets, in small shops as well as in supermarkets because it is a product in great demand. Yet there is a decrease in shares of distribution in value and in quantity in traditional markets because of the growing power of supermarkets. Some small stores find themselves eradicated due to the phenomenon of supermarkets' growing power (Crush & Frayne, 2011).

Despite the fact that Angola has decided to re-launch domestic sugar production and took action in 2006 to investigate the production of sugar for human consumption and for ethanol production (Fig. 38), Angolan domestic consumption remains high whereas its domestic

production is very low (Spears & BFAP, 2012). Biocom is currently Angola's sugar producing company.

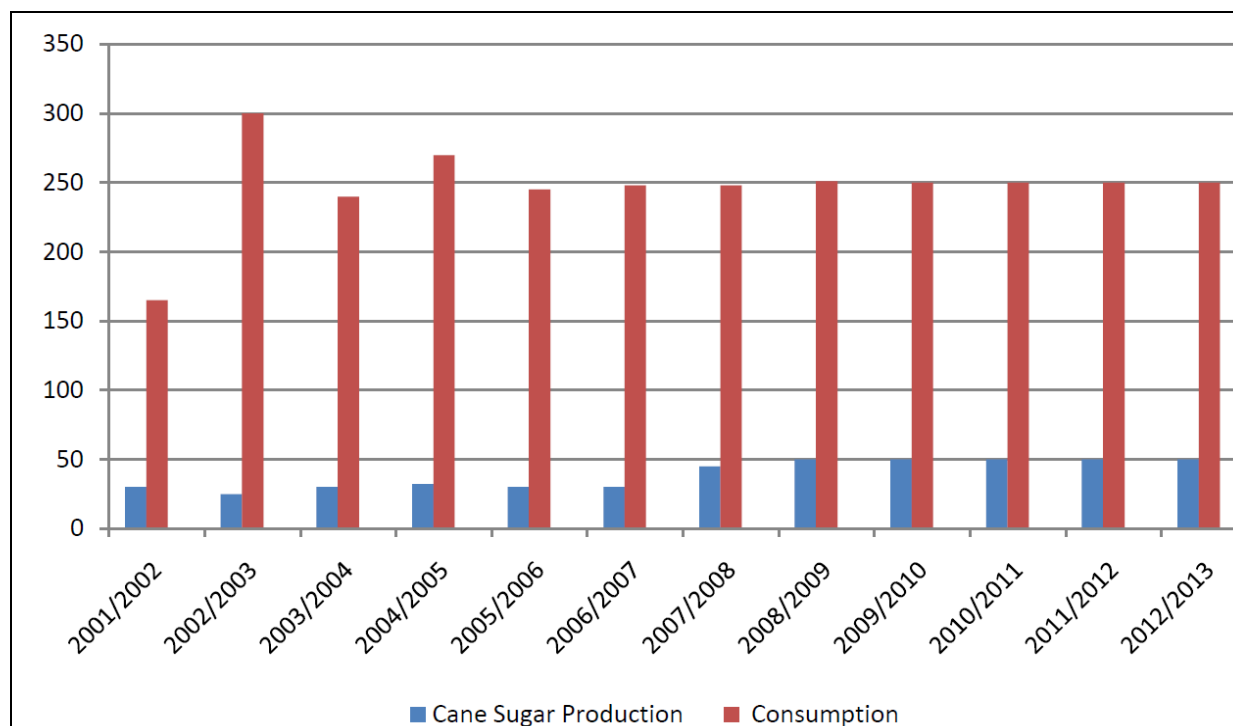


Figure 39: Angolan sugar cane production and consumption (1000's of MT)

Source: Spears and BFAP (2012)

Table 45: Global Competitiveness Index 2012-2013 for exporters of *refined sugar* (HS 170199) to Angola

| Pillars | Brazil | | Portugal | | Egypt | | South Africa | |
|----------------------------------|-------------|---------|-------------|---------|-------------|---------|--------------|---------|
| | Score (1-7) | Ranking | Score (1-7) | Ranking | Score (1-7) | Ranking | Score (1-7) | Ranking |
| 1 Institutions | 3.8 | 79 | 4.3 | 46 | 3.6 | 96 | 4.4 | 43 |
| 2 Infrastructure | 4 | 70 | 5.5 | 24 | 3.6 | 83 | 4.4 | 63 |
| 3 Macroeconomic Environment | 4.7 | 62 | 3.9 | 116 | 3.1 | 138 | 4.1 | 69 |
| 4 Health and primary education | 5.4 | 88 | 6.2 | 30 | 5.3 | 94 | 4.6 | 132 |
| 5 Higher Education and Training | 4.3 | 66 | 5 | 30 | 3.3 | 109 | 3.9 | 84 |
| 6 Goods markets efficiency | 3.9 | 104 | 4.3 | 61 | 3.8 | 125 | 4 | 32 |
| 7 Labor markets efficiency | 4.4 | 69 | 3.8 | 123 | 3.1 | 142 | 4.7 | 113 |
| 8 Financial Market development | 4.4 | 46 | 3.7 | 99 | 3.7 | 102 | 3.9 | 3 |
| 9 Technological readiness | 4.4 | 48 | 5.3 | 28 | 3.4 | 91 | 5.7 | 62 |
| 10 Market size | 5.6 | 9 | 4.3 | 48 | 4.8 | 29 | 4 | 25 |
| 11 Business sophistication | 4.5 | 33 | 4.2 | 54 | 3.8 | 83 | 4.8 | 38 |
| 12 Innovation | 3.4 | 49 | 3.9 | 31 | 2.8 | 109 | 4.3 | 42 |
| Global index & Rank in the world | 4.4 | 48 | 4.4 | 49 | 3.7 | 107 | 3.5 | 52 |

Source: Compiled with Schwab (2012) data on the Global Competitiveness Report

Brazil is the main exporter of *refined sugar* (HS 170199) to Angola. Globally, Brazil is the most productive among the three first exporters of sugar to Angola as it is ranked 48th in the Global Competitiveness Index and Portugal 49th. However, South Africa surpasses Brazil in

terms of institutions and infrastructure. These two factors are very important because they facilitate coordination and the overall network. In terms of business sophistication South Africa is a little behind Brazil.

4.2.10 South Africa trade performance in Angola for *frozen bovine cuts* (HS 020220)

Frozen bovine cuts: in 2011 Angola imported roughly US\$ 18 million worth of *frozen bovine cuts* (HS 020220) from the world. Brazil is Angola's main trade partner from which it imported US\$ 9 million worth of the product in 2011. Angola imported US\$ 4.2 million, US\$ 1.1 million and US\$ 1.0 million from Paraguay, Mexico and Uruguay respectively during the same period. Imports from South Africa of *frozen bovine cuts* (HS 020220) were low at US\$ 48 thousand in 2011.

Angola's import growth in *frozen bovine cuts* (HS 020220) in value between 2007 and 2011 was 29%. Angola's import growth from Brazil was 41% and Brazil's share in Angola's imports was 50% in 2011, i.e. Brazil is gaining share in Angola. Paraguay's share in Angola's imports was 23% and it is losing market share because Angola's import growth from Paraguay is lower than Angola's import growth from the world (15% versus 29%). Namibia, Portugal and Australia are all small players but they are gaining shares in Angola's imports of *frozen bovine cuts* (HS 020220), but in contrast South Africa share in Angola's imports is declining (-39% during 2007 and 2011)

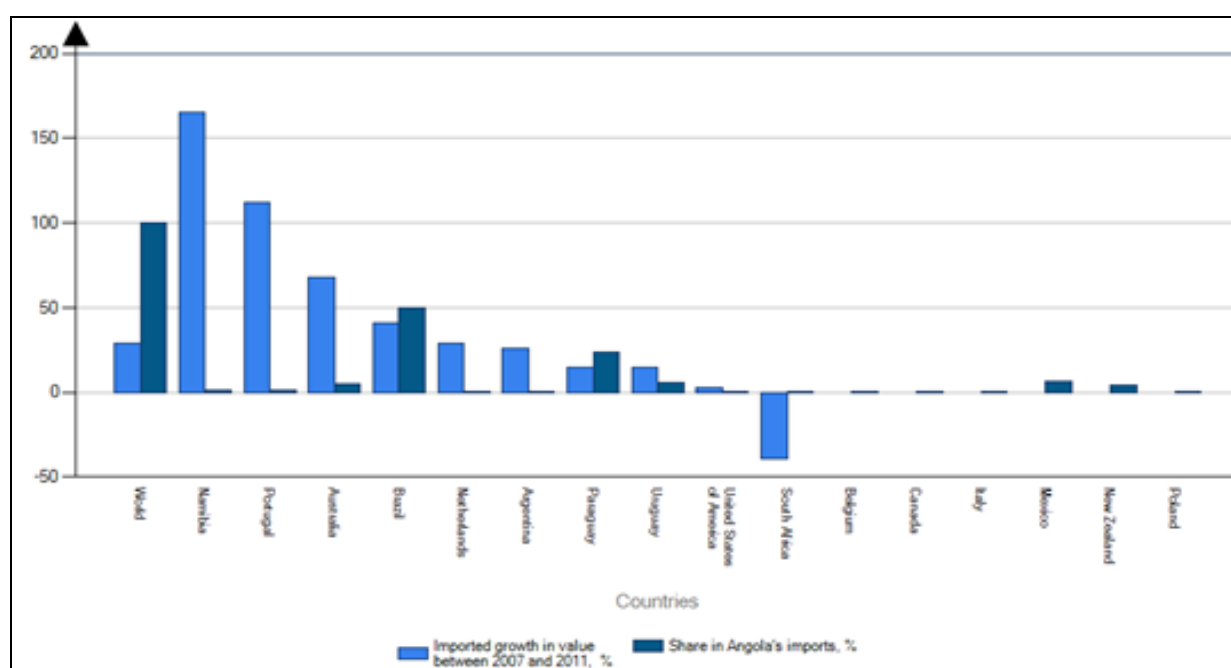


Figure 40: Shares of suppliers of *frozen bovine cuts* (HS 020220) in 2011 and their growth in import value in Angola between 2007 & 2011

Source: ITC (2012)

4.2.10.1 Angola applied tariff for frozen bovine cuts (HS 020220)

Brazil is the biggest exporter of *frozen bovine cuts* (HS 020220) to Angola. Its share in the market was 50.1% in 2011 followed by Paraguay and Mexico which had shares of 23.4% and 6.3% respectively in 2011. There is no tariff advantage for any main competitor in the market of *frozen bovine cuts* (HS 020220) in Angola. All main competitors face 10.0% applied tariffs. Here again Angola follows the MFN tariffs of the WTO.

South Africa exports most *frozen bovine cuts* (HS 020220) to Mozambique (47% share in SA's exports), Nigeria (13.4%), Ghana (6.2%) and Seychelles (5.6%). Angola's share in South Africa's exports was only 2.3% in 2011. South Africa's exports of *frozen bovine cuts* (HS 020220) to SADC countries are also important.

Table 46: Tariff faced and tariff advantage in Angola for *frozen bovine cuts* (HS 020220)

| | Market share in 2011 (%) | Tariffs faced | Trade Regime | Tariff advantage for South Africa (yes/no) |
|--|--------------------------|------------------------------|----------------------|--|
| South Africa | 0.3 | 10.00% | MFN duties (Applied) | no |
| South Africa's main competitors in target market | Market share in 2011 (%) | Tariffs faced by competitors | Trade Regime | Tariff advantage for competitors (yes/no) |
| Brazil | 50.1 | 10.00% | MFN duties (Applied) | no |
| Paraguay | 23.4 | 10.00% | MFN duties (Applied) | no |
| Mexico | 6.3 | 10.00% | MFN duties (Applied) | no |

Source: Compiled with the ITC (2012) data

4.2.10.2 Market place and distributors of meat in Angola

In Angola, meat is sold in traditional markets especially for small domestic distributors that buy cattle that are slaughtered domestically. Some butcheries are available for both imported meat and locally produced meat. Supermarkets are increasingly meat distributors and the majority of meat that is sold in supermarkets is imported. This is because supermarkets are demanding in terms of quality, packaging, safety, etc. These standards are easily met by well-established suppliers in foreign countries (Reardon, Timmer & Berdegue, 2008).

Being one of the fastest growing economies in Africa due to the rising oil revenues, the growing urbanisation and the increasing per capita GDP, Angola's demand of meat is a very

good opportunity. There are butcher shops for meat wholesale, meat processing butchers and grocery stores for meat packers (Scoones, Bishi, Mapitse, Moerane, Penrith, Sibanda, Thomson & Wolmer, 2010).

Table 47: Global Competitiveness Index 2012-2013 for exporters of *frozen bovine cuts* (HS 020220) to Angola

| Pillars | Brazil | | Paraguay | | Mexico | | South Africa | |
|----------------------------------|-------------|---------|-------------|---------|-------------|---------|--------------|---------|
| | Score (1-7) | Ranking | Score (1-7) | Ranking | Score (1-7) | Ranking | Score (1-7) | Ranking |
| 1 Institutions | 3.8 | 79 | 3 | 135 | 3.6 | 92 | 4.4 | 43 |
| 2 Infrastructure | 4 | 70 | 2.5 | 123 | 4 | 68 | 4.4 | 63 |
| 3 Macroeconomic Environment | 4.7 | 62 | 5.2 | 43 | 5.2 | 40 | 4.1 | 69 |
| 4 Health and primary education | 5.4 | 88 | 5 | 108 | 5.7 | 68 | 4.6 | 132 |
| 5 Higher Education and Training | 4.3 | 66 | 3.3 | 112 | 4.1 | 77 | 3.9 | 84 |
| 6 Goods markets efficiency | 3.9 | 104 | 4.2 | 81 | 4.2 | 79 | 4 | 32 |
| 7 Labor markets efficiency | 4.4 | 69 | 3.9 | 115 | 4 | 102 | 4.7 | 113 |
| 8 Financial Market development | 4.4 | 46 | 3.9 | 83 | 4.2 | 61 | 3.9 | 3 |
| 9 Technological readiness | 4.4 | 48 | 3.1 | 107 | 3.8 | 72 | 5.7 | 62 |
| 10 Market size | 5.6 | 9 | 3.1 | 90 | 5.6 | 12 | 4 | 25 |
| 11 Business sophistication | 4.5 | 33 | 3.5 | 107 | 4.3 | 44 | 4.8 | 38 |
| 12 Innovation | 3.4 | 49 | 2.4 | 132 | 3.3 | 56 | 4.3 | 42 |
| Global index & Rank in the world | 4.4 | 48 | 3.7 | 116 | 4.4 | 53 | 3.5 | 52 |

Source: Compiled with Schwab (2012) data on the Global Competitiveness Report

In the global level of productivity, Mexico competes closely with South Africa; they ranked in 2012-2013 52nd and 53rd for South Africa and Mexico respectively. In terms of institutions and infrastructure, South Africa surpasses Mexico, Brazil and Paraguay. Brazil has a bigger market than South Africa worldwide and Mexico as well.

4.2.11 South Africa trade performance in Angola for *frozen bovine carcasses and half carcasses* (HS 020210)

Frozen bovine carcasses and half carcasses: Portugal is Angola's dominant trade partner of *frozen bovine carcasses and half carcasses* (HS 020210). It has roughly 100% of the share of Angola's imports from the world of *frozen bovine carcasses and half carcasses* (HS 020210).

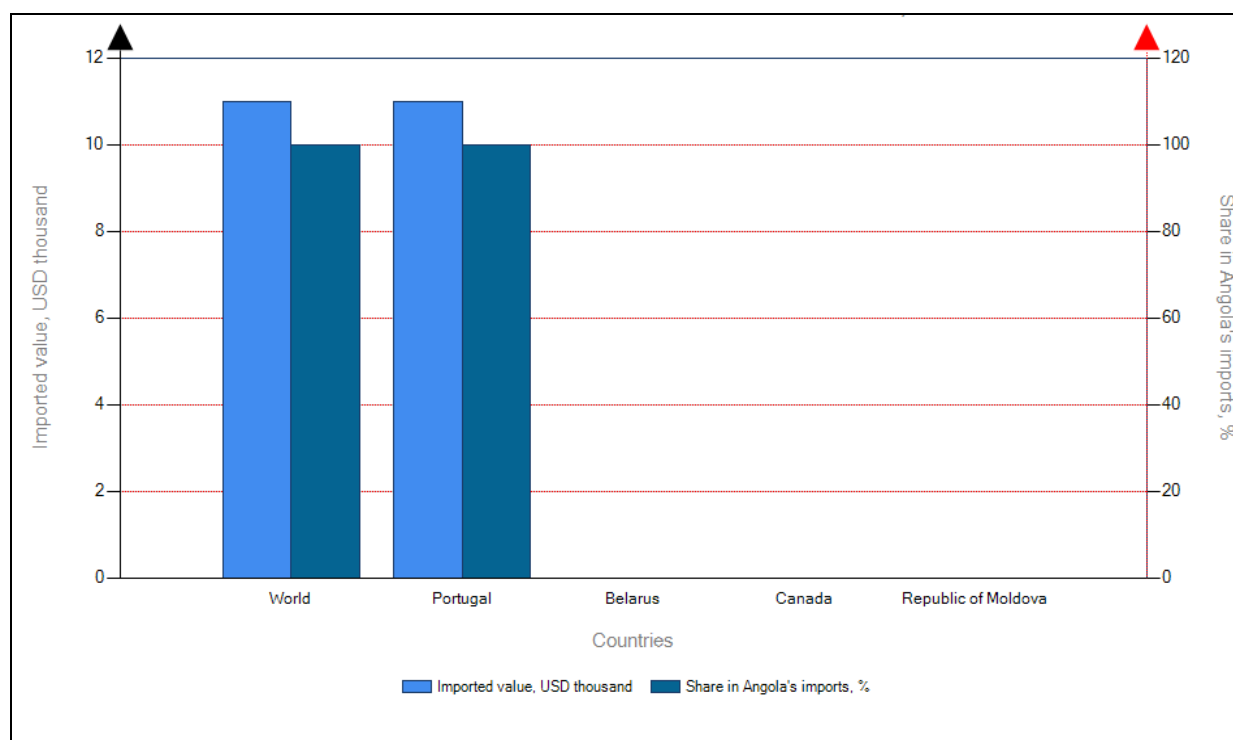


Figure 41: Imported value and shares of *frozen bovine carcasses and half carcasses* (HS 020210) in Angola in 2012

Source: ITC (2013).

South Africa does not export a big value of *frozen bovine carcasses and half carcasses* (HS 020210). Its export value in 2012 to the world was US\$ 29 thousand. It mostly exports it to Mozambique and accounted for 97% of its world exports to Mozambique in 2012. South Africa export small values to Greece, Italy, Kazakhstan and the Netherlands.

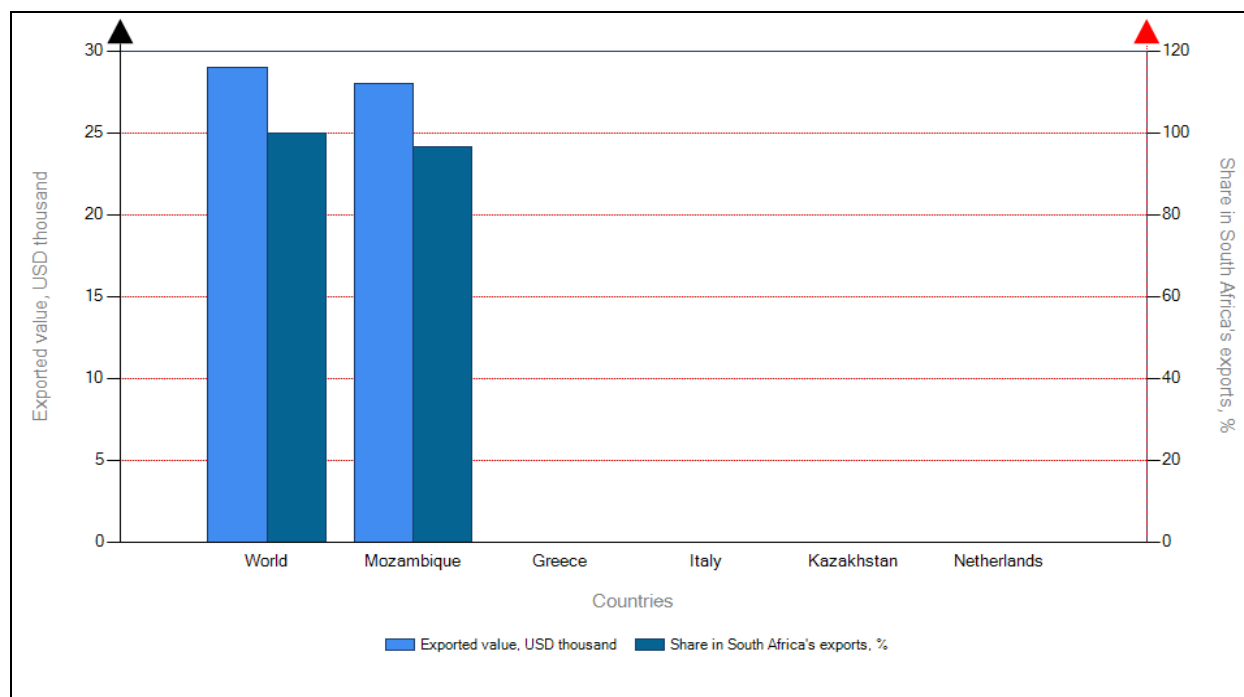


Figure 42: South Africa's exports of *frozen bovine carcasses and half carcasses* (HS 020210) to the world in 2012

Source: ITC (2013)

4.2.11.1 Angola applied tariff for frozen bovine carcasses and half carcasses (HS 020210)

Angola has got no preferential tariff in the market of *frozen bovine carcasses and half carcasses* (HS 020210) for any main competitor, they all face 10% applied tariff and they all fall in the MFN tariff regime. South Africa's limited exports of *frozen bovine carcasses and half carcasses* (HS 020210) are mainly to Mozambique. In 2012 South Africa's total export value of this product to the world was US\$ 29 thousands. 96.6% of this export value was directed to Mozambique. Portugal is almost Angola's only trade partner for *frozen bovine carcasses and half carcasses* (HS 020210). In 2012, 100% of Angola's imports of this product from the world originated from Portugal (ITC).

Table 48: Tariff faced and tariff advantage in Angola for *frozen bovine carcasses and half carcasses* (HS 020210)

| | Market share in 2012 (%) | Tariffs faced | Trade Regime | Tariff advantage for South Africa (yes/no) |
|--|--------------------------|------------------------------|----------------------|--|
| South Africa | 0.00% | 10% | MFN duties (Applied) | no |
| South Africa's main competitors in target market | Market share in 2012 (%) | Tariffs faced by competitors | Trade Regime | Tariff advantage for South Africa (yes/no) |
| Portugal | 100.00% | 10% | MFN duties (Applied) | no |
| Belarus | 0.00% | 10% | MFN duties (Applied) | no |
| Canada | 0.00% | 10% | MFN duties (Applied) | no |

Source: Compiled with the ITC (2013) data

Portugal's level of productivity is inferior to the level of productivity of Canada, but slightly superior to the level of productivity of South Africa. Portugal is ranked 49th, Canada 14th and South Africa 52nd in terms of the Global Competitiveness Index. Portugal only is the major exporter of *frozen bovine carcasses and half carcasses* (HS 020210) to Angola. Portugal's infrastructure is more developed than South Africa's. Canadian infrastructure is very ahead compared with Portuguese ones and South African ones. South African institutions are more developed than Portuguese institutions. In the sector of higher education and training, South Africa is surpassed by Canada and Portugal.

Table 49: Global Competitiveness Index 2012-2013 for exporters of *frozen bovine carcasses and half carcasses* (HS 020210) to Angola

| Pillars | Portugal | | Belarus | | Canada | | South Africa | |
|----------------------------------|-------------|---------|-------------|---------|-------------|---------|--------------|---------|
| | Score (1-7) | Ranking | Score (1-7) | Ranking | Score (1-7) | Ranking | Score (1-7) | Ranking |
| 1 Institutions | 4.3 | 46 | — | — | 5.52 | 11 | 4.4 | 43 |
| 2 Infrastructure | 5.5 | 24 | — | — | 5.84 | 13 | 4.4 | 63 |
| 3 Macroeconomic environment | 3.9 | 116 | — | — | 4.9 | 51 | 4.1 | 69 |
| 4 Health and primary education | 6.2 | 30 | — | — | 6.58 | 7 | 4.6 | 132 |
| 5 Higher education and training | 5 | 30 | — | — | 5.57 | 15 | 3.9 | 84 |
| 6 Goods market efficiency | 4.3 | 61 | — | — | 5.12 | 13 | 4 | 32 |
| 7 Labor market efficiency | 3.8 | 123 | — | — | 5.45 | 4 | 4.7 | 113 |
| 8 Financial market development | 3.7 | 99 | — | — | 5.28 | 11 | 3.9 | 3 |
| 9 Technological readiness | 5.3 | 28 | — | — | 5.6 | 20 | 5.7 | 62 |
| 10 Market size | 4.3 | 48 | — | — | 5.45 | 13 | 4 | 25 |
| 11 Business sophistication | 4.2 | 54 | — | — | 4.84 | 26 | 4.8 | 38 |
| 12 Innovation | 3.9 | 31 | — | — | 4.64 | 22 | 4.3 | 42 |
| Global index & rank in the world | 4.4 | 49 | — | — | 5.27 | 14 | 3.5 | 52 |

Source: Compiled with Schwab (2012) data on the Global Competitiveness Report

4.3 Mozambique's profile: background and SWOT analysis

4.3.1 Trade

Between South Africa and Mozambique there is a broad preferential trade agreement in the regulation of labour, railway and port issues as well as trade. This bilateral cooperation started in 1928 and was strengthened on 20 July 1994 by providing a Joint Permanent Commission for Collaboration in Trade and Investment (SA Department of International Relations and Coop., 2012). In terms of preferential trade agreement, Mozambique also receives preferential treatment for almost all products with the exception of *worn clothing and other worn articles* (HS 630900) to South Africa (ITC, 2013).

South Africa's main agricultural exports to Mozambique include at two digit HS level: sugar, edible fruits and nuts, miscellaneous edible preparations, dairy products, beverages, spirits and vinegar. Mozambique is a member of the WTO, of the IMF, as well as the World Bank. In Africa it is member of ACP (African Caribbean and Pacific). Mozambique is a signatory of the SADC trade agreement and IOR-ARC (India Ocean Rims Association for Regional Cooperation). It is party to AGOA (African Growth and Opportunity Act), the Cotonou Agreement, the GSP (General System of Preferences), and it has a preferential trade agreement with South Africa. Mozambique has been negotiating bilateral trade agreements with Algeria, Cuba, Egypt, India, Kenya, Malawi, Mauritius, Russia, Zambia and Zimbabwe. As usual the purpose of these agreements is to improve trade and to ameliorate the welfare of the people in the nations of signatories (Sebei, 2007).

In 2004 Mozambique was the top export destination in the SADC region for South Africa's agricultural products, followed by Angola and then Zimbabwe (Sebei, 2007). In 2012, Mozambique was the third greatest export destination after Zambia and Zimbabwe for all products including non-agricultural products from South Africa (ITC, 2013).

4.3.2 Mozambique's economic environment

Mozambican GDP (PPP) in 2011 was US\$ 24.19 billion. Mozambican GDP gradually increased by 6.3%, 6.8%, 7.1% in 2009, 2010 and 2011 respectively. GDP per capita has also increased. It was estimated at US\$ 1 000 in 2010 and US\$ 1 100 in 2011. The contributions by sectors to GDP are 31.5%, 23.8%, and 44.7% for agriculture, industry and services respectively. In 2008 the percentage of people below the poverty line was 54%, and the distribution of household income captured by the Gini Index in 2008 was 45.6 (CIA, 2012).

4.3.3 Mozambique's political environment

In 1975, the year of Mozambique's independence, the country was among the world's poorest countries. That poverty was due to socialist mismanagement, and civil war from 1977 to 1992 made the situation even worse. Later, fiscal revisions that included the introduction of a value-added tax as well as the reform of customs service have improved the capacity of government's revenue collection. In order to improve the welfare of the Mozambicans, the government options were to implement subsidies, cut taxes and tariffs and institute other fiscal measures. In 2011 Mozambique achieved a real GDP growth of 7.2% (CIA, 2012). Yet political life has not stayed stable because of issues in the constitutional system.

4.3.4 Mozambique's communication and transportation

In July 2012 Mozambique's population was 23.5 million and it is expected to increase by 2.44% yearly. In 2009 there were 7 224 million cell phones used. This number relative to the number of people is quite small. Broadcast and media are mostly private and amounted to four in 2007 for TV stations, of which one was owned by the government. With regard to radio stations, the government covers almost 100% of the territory. Internet users amounted to 613 600 in 2009, which again is a very small number relative to the number of people in the country and promotion on the internet is almost non-existent (CIA, 2012).

Mozambique is a country of 799 380 square km. In 2012 it had 100 airports of which 21 are paved on their runways. Road infrastructure is not well developed. The total length in 2000 was 30 331 km and only 6 303 km were paved. Roadways are complemented by railways and waterways which were 4 787 km (in 2008) and 460 km (in 2010) of length respectively. Waterways are made possible by the presence of the Zambezi River (CIA, 2012).

Table 50: SWOT Analysis: Mozambique

| | Strengths/Opportunities | Threats/Weaknesses |
|-------|---|--|
| Trade | Despite the fact that South Africa and Mozambique are all signatories in SADC, South Africa also enjoys preferential agreement with Mozambique. The agreement includes among other trade, labour, etc. Good diplomatic relations can be deduced from trade flows. In 2004 Mozambique was South Africa's main export destination in SADC for agricultural and food products. | When it is profitable for Mozambique to negotiate preferential trade agreements with other countries (Algeria, Cuba, Egypt, India, Kenya, Malawi, Mauritius, Russia, Zambia and Zimbabwe) it is more threatening to South Africa because competition is increasing in the Mozambican market. |

| | Strengths/Opportunities | Threats/Weaknesses |
|---------------------------|--|---|
| Political environment | Good diplomatic relations with South Africa are evident from notable bilateral trade flows. There are a number of South African farmers in Mozambique that can negotiate with authorities and convey important information. | Despite the change undergone by Mozambique since its independence in 1975, political life didn't stabilize. There are still issues in the constitutional systems that remain unsatisfied. |
| Economic environment | Gradual GDP growth over the years. GDP growth per capita is also positive. | The percentage of the population below the poverty line is relatively large. |
| Social environment | There are some similar cultural backgrounds between South Africa and Mozambique as a result of neighbouring relations. Languages spoken in South Africa that are also spoken in Mozambique to some extent include: Zulu, Makhuwa and Tswa (Ministry of the U.S. Center for World Mission, 2013). | HIV and AIDS is a serious issue in Mozambique. Repeated floods during the rainy season are not of negligible disturbance. Language barriers are still problematic even if there is notable bilateral trade flows between the two countries (English in South Africa and Portuguese in Mozambique). Primary and tertiary education is problematic in Mozambique. |
| Technological environment | South Africa's technological sector is developed enough to meet Mozambique's required quality of agricultural and food products. | The technological sector is underdeveloped in Mozambique; Mozambique is one of the countries where innovation is almost non-existent. |

Source: Own compilation based on relevant literature

4.3.5 South Africa trade performance in Mozambique for *wine in containers of <= 2 litres* (HS 220421)

Wine in containers of <=2l: South Africa is among the first three competitors in *wine in containers of <=2l* (HS 220421) in Mozambique after Portugal and Chile. The three main competitors of South Africa in Mozambique for *wine in containers of <=2l* (HS 220421) are Portugal, Chile and Spain. In 2012, their shares in Mozambique's imports of the products were 69.1% (US\$ 4 708 million) for Portugal, 24% (US\$ 1 634 million) for Chile and 1.3% (US\$ 88 000) for Spain during the same period. South Africa share was 4.2% and amounted to US\$ 284 000 (ITC, 2013).

From 2008 to 2012 Mozambique's import growth in value from the world was 36%. Mozambique's imports from Portugal grew by 29%. During the same period there was not import growth from Chile and Spain. Mozambique's imports from South Africa grew only by 4% while France experienced a significant growth of 71% during the same period. Figure 43

shows suppliers of *wine in containers of ≤2l* (HS 220421) in Mozambique and their shares (ITC, 2013).

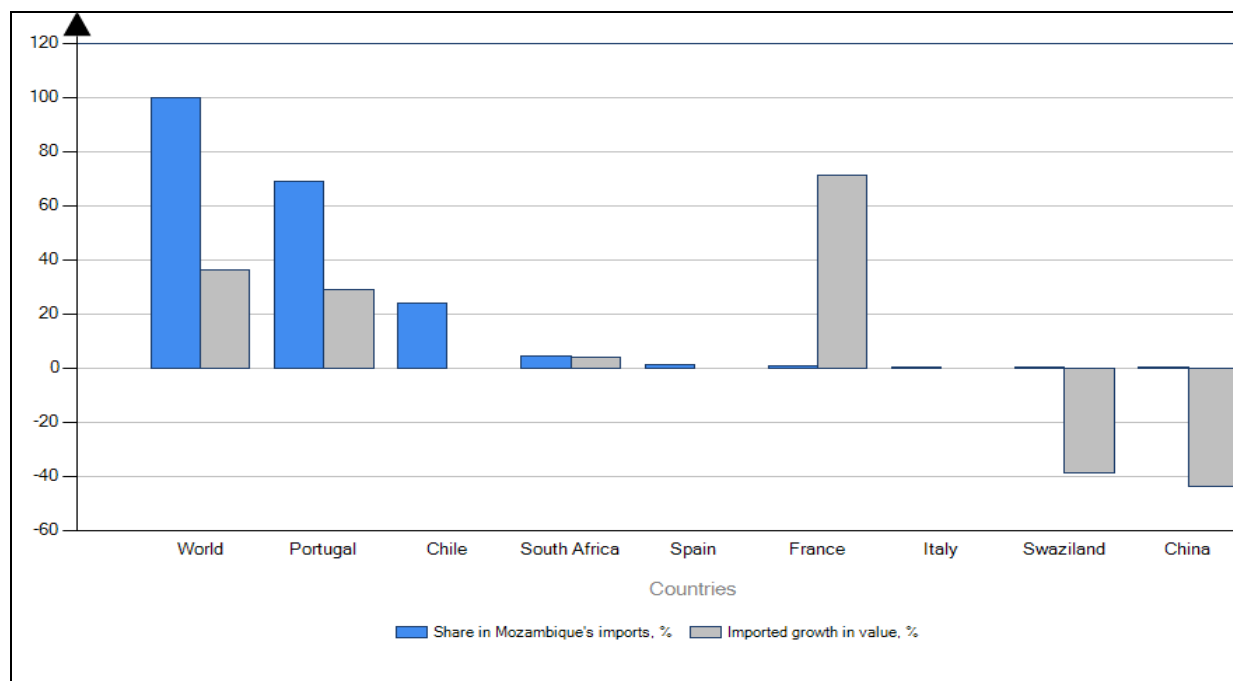


Figure 43: Shares of suppliers of *bottled wine* (HS 220421) in 2012 and their import growth in value in Mozambique between 2008 & 2012

Source: ITC (2013)

Portugal remained the main exporter of *wine in containers of ≤2l* (HS 220421) (Fig. 44) from 2001 to 2012. South Africa is third after Portugal and Chile even if it has a distance advantage vis-à-vis its competitors (ITC, 2013). Between 2007 and 2011, Mozambique imports have grown gradually. Nevertheless, there has been a sharp decrease of 43% in Mozambique's imports of *wine in containers of ≤2l* (HS 220421) from the world from 2011 to 2012 as shown in figure 44.

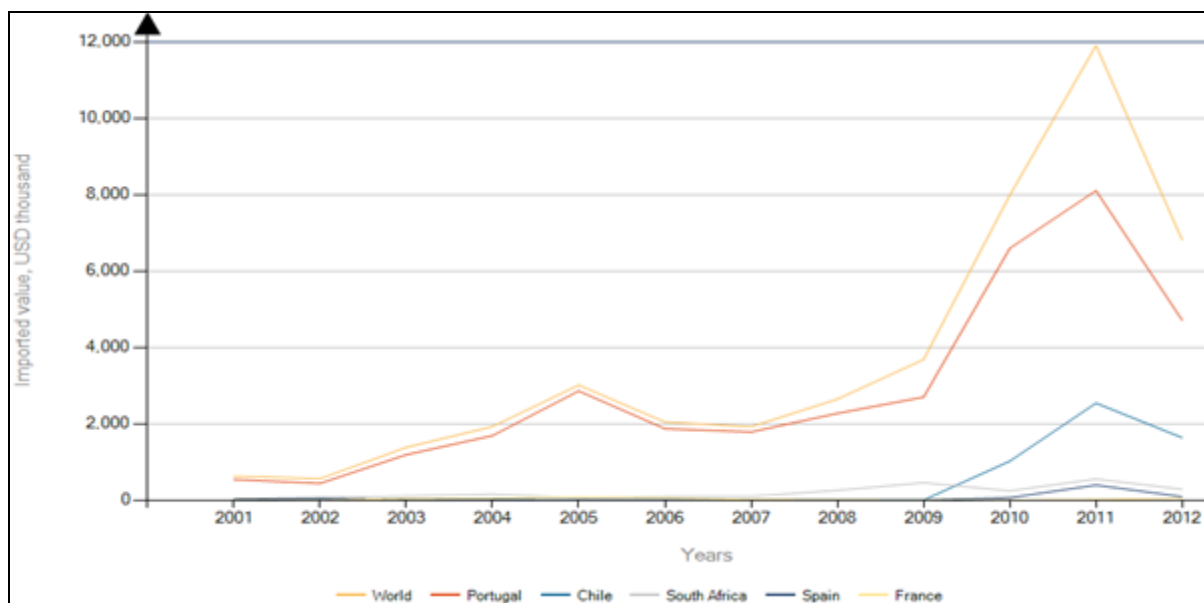


Figure 44: Suppliers of *bottled wine* (HS 220421) imported by Mozambique (2001-2012)

Source: ITC (2013)

4.3.5.1 Mozambique applied tariff for wine in containers of $\leq 2l$ (HS 220421)

Here South Africa has a very well differentiated tariff advantage, South Africa faces 0.0% applied tariff in Mozambique, as opposed to its main competitors that face 20.0% applied tariff. Nevertheless Portugal and Chile are the two main exporters to Mozambique despite the fact that they have no tariff advantage in Mozambique.

South Africa exported most of its *wine in containers of $\leq 2l$* (HS 220421) overseas to UK (19.2% share in SA's exports), the Netherlands (12%), Germany (11.9%), Canada (7.1%), the USA (7%), Sweden (6.6%) and China (4%) in 2011. Exports to Mozambique were 0.5% of South Africa's total exports of *wine in containers of $\leq 2l$* (HS 220421) in 2011. Mozambique imports more *wine in containers of $\leq 2l$* (HS 220421) from Portugal, Chile and Spain compared to its imports from the rest of the world.

Table 51: Tariff faced and tariff advantage in Mozambique for *bottled wine* (HS 220421)

| | Market share in 2011 (%) | Tariffs faced | Trade Regime | Tariff advantage for South Africa (yes/no) |
|--|--------------------------|------------------------------|--------------------------------------|--|
| South Africa | 4.6 | 0.00% | Preferential Tariff For South Africa | yes |
| South Africa's main competitors in target market | Market share in 2011 (%) | Tariffs faced by competitors | Trade Regime | Tariff advantage for competitors (yes/no) |
| Portugal | 68.1 | 20.00% | MFN duties (Applied) | no |
| Chile | 21.3 | 20.00% | MFN duties (Applied) | no |
| Spain | 3.3 | 20.00% | MFN duties (Applied) | no |

Source: Compiled with the ITC (2012) data

4.3.5.2 Market place and distributors of wine in Mozambique

In Mozambique, wine is sold in bottle stores, in supermarkets, in restaurants, in bars and at some luxury hotels. Importantly, the rise of supermarkets that takes place in Sub-Saharan Africa tends to narrow the number and the size of traditional retailers namely small shops and/or public markets especially in countries that receive foreign direct investment from South Africa (Weatherspoon & Reardon, 2003). However, there is an increasing interest of wine consumption in the Mozambican life style. A wine festival is held each year in Maputo for tourism attraction and cultural exhibition. It is one of the biggest events in the country and the objective is to promote wines and lifestyle while experiencing professional tastings.

Table 52: Global Competitiveness Index 2012-2013 for exporters of *bottled wine* (HS 220421) to Mozambique

| Pillars | Portugal | | Chile | | Spain | | South Africa | |
|----------------------------------|-------------|---------|-------------|---------|-------------|---------|--------------|---------|
| | Score (1-7) | Ranking | Score (1-7) | Ranking | Score (1-7) | Ranking | Score (1-7) | Ranking |
| 1 Institutions | 4.3 | 46 | 5 | 28 | 4.2 | 48 | 4.4 | 43 |
| 2 Infrastructure | 5.5 | 24 | 4.6 | 45 | 5.9 | 10 | 4.4 | 63 |
| 3 Macroeconomic Environment | 3.9 | 116 | 6.2 | 14 | 4.2 | 104 | 4.1 | 69 |
| 4 Health and primary education | 6.2 | 30 | 5.6 | 74 | 6.1 | 36 | 4.6 | 132 |
| 5 Higher Education and Training | 5 | 30 | 4.7 | 46 | 5 | 29 | 3.9 | 84 |
| 6 Goods markets efficiency | 4.3 | 61 | 4.7 | 30 | 4.4 | 55 | 4 | 32 |
| 7 Labor markets efficiency | 3.8 | 123 | 4.7 | 34 | 4 | 108 | 4.7 | 113 |
| 8 Financial Market development | 3.7 | 99 | 4.7 | 28 | 3.9 | 82 | 3.9 | 3 |
| 9 Technological readiness | 5.3 | 28 | 4.5 | 44 | 5.3 | 26 | 5.7 | 62 |
| 10 Market size | 4.3 | 48 | 4.4 | 42 | 5.5 | 14 | 4 | 25 |
| 11 Business sophistication | 4.2 | 54 | 4.2 | 48 | 4.5 | 32 | 4.8 | 38 |
| 12 Innovation | 3.9 | 31 | 3.5 | 44 | 3.8 | 35 | 4.3 | 42 |
| Global index & Rank in the world | 4.4 | 49 | 4.6 | 33 | 4.6 | 36 | 3.5 | 52 |

Source: Compiled with Schwab (2012) data on the Global Competitiveness Report

Chile's level of productivity is very competitive in the world. It is ranked the 33rd surpassing Portugal, Spain and South Africa. All these countries are exporters of *wine in containers*

≤ 21 (HS 220421) or bottled wine to Mozambique. Chile's institutions and infrastructure are more developed than South Africa's. Chile's scores in education are higher than South Africa's scores, but South Africa's innovation is better than Chile's.

4.4 Zambia's profile: background and SWOT analysis

4.4.1 Trade

Zambia's imports were estimated at US\$ 5.32 billion in 2010, US\$ 7.18 billion in 2011 and US\$ 8.94 billion in 2012. The imported commodities are mainly machinery, transportation equipment, electricity, fertilizer, food stuffs and clothing. South Africa is the biggest trade partner of Zambia in terms of Zambia's imports from the world. There has been an increase in Zambia's imports from South Africa. From 2008 to 2012, Zambia's annual import growth from South Africa was 13%. However, Zambia's import growth from the world was 19% (ITC, 2013). This is an indication that South Africa is losing market share in Zambia, because Zambia's import growth from the world is greater than Zambia's import growth from South Africa. In terms of value, in 2008 Zambia's imports from South Africa accounted for US\$ 2.15 billion and US\$ 3.01 billion in 2012.

In 2009 Zambia and South Africa signed six agreements regarding energy, agriculture, health, trade, mining and diplomatic consultations (South Africa.info, 2010). In the African continent, Zambia is a member of two regional trade agreements: the Southern African Development Community (SADC) and the Common Market for Eastern and Southern Africa (COMESA) which is a free trade area for some members. A free trade area is a trade union that member countries have committed to sign a free trade agreement (FTA) that eliminates tariffs, import quotas and preferences on almost all products. A free trade area doesn't mean members can increase duties on the third parties, but it is recommended to treat third parties substantially (Jovanović, 2011). South Africa is not a member of COMESA. Due to the fact that Zambia has got a trade agreement with the EU, any combination of members that Zambia joins to negotiate an economic partnership agreement with, the European Union will have about the same economic impact on Zambia (Roningen & DeRosa, 2003). Both regional trade agreements, COMESA and SADC, in which Zambia is a member, and which are partial FTAs, are looking forward to become full FTA's. It will of course change the actual economic situation of Zambia and other countries.

Being a member of two trade agreements, one of which South Africa is also a member (SADC), Zambia is facing to comply with two simultaneous agreements. Some of Zambia's other trade agreements out of Africa are for example (Roningen & DeRosa, 2003):

- The General Systems of Preferences (GSP): granted to developing countries
- The Everything but Arms Initiative of the European Union
- The African Growth and Opportunity Act (AGOA)
- A bilateral trade agreement with China

4.4.2 Zambia's economic environment

There has been strong growth in the Zambian economy in recent years. Between 2005 and 2011 the rate of real GDP growth was 6% per year. This economic growth was mainly driven by the mining sector of copper. Nevertheless, despite strong economic growth, poverty remains an important problem in Zambia and needs to be tackled.

Zambian GDP (PPP) was US\$ 19.07 billion, US\$ 20.5 billion and US\$ 21.93 billion in 2009, 2010 and 2011 respectively. This trend gives a greater opportunity for business in Zambia. Real GDP growth rate is also attractive at 6.4%, 7.6%, and 6.7% yearly in 2009, 2010 and 2011 respectively. Zambia's GDP per capita was US\$ 1 500, US\$ 1 500 and US\$ 1 600 in 2009, 2010 and 2011 respectively (CIA, 2012). It is said to improve purchasing power. The contribution of agriculture to the total GDP was 21.4% and Zambia's agricultural products are mainly maize, sorghum, rice, peanuts, sunflower seed, vegetables, flowers, tobacco, cotton, sugarcane, cassava, coffee, cattle, pigs, poultry, milk, eggs and hides. The manufacturing industry's contribution to total GDP was 35.1% and service contribution was 43.5% in 2011. The agricultural sector utilized 85% of labour force, the industry 6% and the services' sector 9% in 2004. The unemployment rate in 2006 was 14%. It is worth noting that there has been a big improvement from 2000 (50%) to 2006 (14%). Unfortunately poverty is still very prominent with the population below the poverty line at 64% in 2006 (CIA, 2012).

Zambia's income distribution was 52.6 in 1998 and 50.8 in 2004 (CIA, 2012). One can see that there has been an improvement in the income distribution from 1998 to 2004.

4.4.3 Zambia's political environment

In term of politics, Zambia is a fairly stable country. The elections' processes and the series of president changes don't cause alarming problems (Cheeseman & Hinfelaar, 2009). The

political environment in Zambia is conducive for sustainable business and security of capital assets.

4.4.4 Zambia's communication and transportation

Zambia, a country of 752 618 square km, has a telephone system which is among the best in Sub-Saharan Africa. The high capacity microwave radio connects most large cities and towns. There are continuous improvements in the service network of cellular telephones. Furthermore, a domestic satellite system was installed to improve telephone service in rural areas. The number of cell phones in 2009 was 4.95 million which ranked it 102nd in the world. Internet services are generally available. Internet users in 2009 amounted to 816 200 and ranked 105th in the world (CIA, 2012).

The modes of transport in Zambia are mainly roadway, railway, waterway and airway. Roughly 80% of modes of transport in use are roadways and railways. They are used for people, goods and services (Mwape, 2002). Transportation in Zambia is facilitated by the following: Zambia has 88 airports, but only 8 of them have paved runways. The total length of railways in Zambia is 2 157 km; 91 440 km roadways with 20 117 km paved. In 2010 Zambia had 2 250 km of waterways that lay in Lake Tanganyika and the Zambezi and Luapula rivers. In terms of ports there is only one port, Mpulungu (CIA, 2012).

Table 53: SWOT Analysis: Zambia

| | Strengths/Opportunities | Threats/Weaknesses |
|-----------------------|---|--|
| Trade | Zambia is a member of SADC protocol. South Africa is Zambia's main trade partner in terms of Zambia's imports from the world. | South Africa is losing global market share in Zambia because Zambia's total import growth from the world is superior to Zambia's total import growth from South Africa. On the contrary, China, India and the USA are all gaining market share in Zambia. Their growth rates were above the world's growth rate. |
| Political environment | Zambia's political environment is quite stabilized. There are no big conflicts that can lead to economic disturbance. | There are no major problems in terms political stability. |
| Economic environment | Positive GDP growth averaged 6% per year. The income distribution is improving, nevertheless slowly. | The contribution to GDP is dominated by copper mining and processing (i.e. more than 50%). In case of a negative change in the price or demand of copper, it would impact negatively on the Zambian economy. |

| | Strengths/Opportunities | Threats/Weaknesses |
|---------------------------|--|--|
| Social environment | The same official language as South Africa (i.e. English), i.e. it is easy to communicate and convey information | Poverty remains an important issue and needs to be tackled. Population below poverty line is above 50%, but declining. |
| Technological environment | Technology is well utilized and internet can be used moderately as facility for products' promotion. Zambia's telephone system is among the best in Sub-Saharan Africa. Well-developed infrastructure, roads and railways are generally practicable. | In some parts of the country there are road problems (absent or need to be maintained) |

Source: Own compilation based on relevant literature

4.4.5 South Africa trade performance in Zambia for *fresh grapes* (HS 080610)

Fresh grapes: South Africa is by far Zambia's main trade partner of *fresh grapes* (HS 080610). In 2012 Zambia imported US\$ 464 thousand that represented roughly 95% of Zambia's total imports of *fresh grapes* (HS 080610) from the world. It is followed by Spain and Egypt that compete at a very small scale in Zambia's import market of *fresh grapes* (HS 080610). In 2012 Spain accounted for 4% and Egypt for 1% in Zambia's imports of *fresh grapes* (HS 080610) from the world.

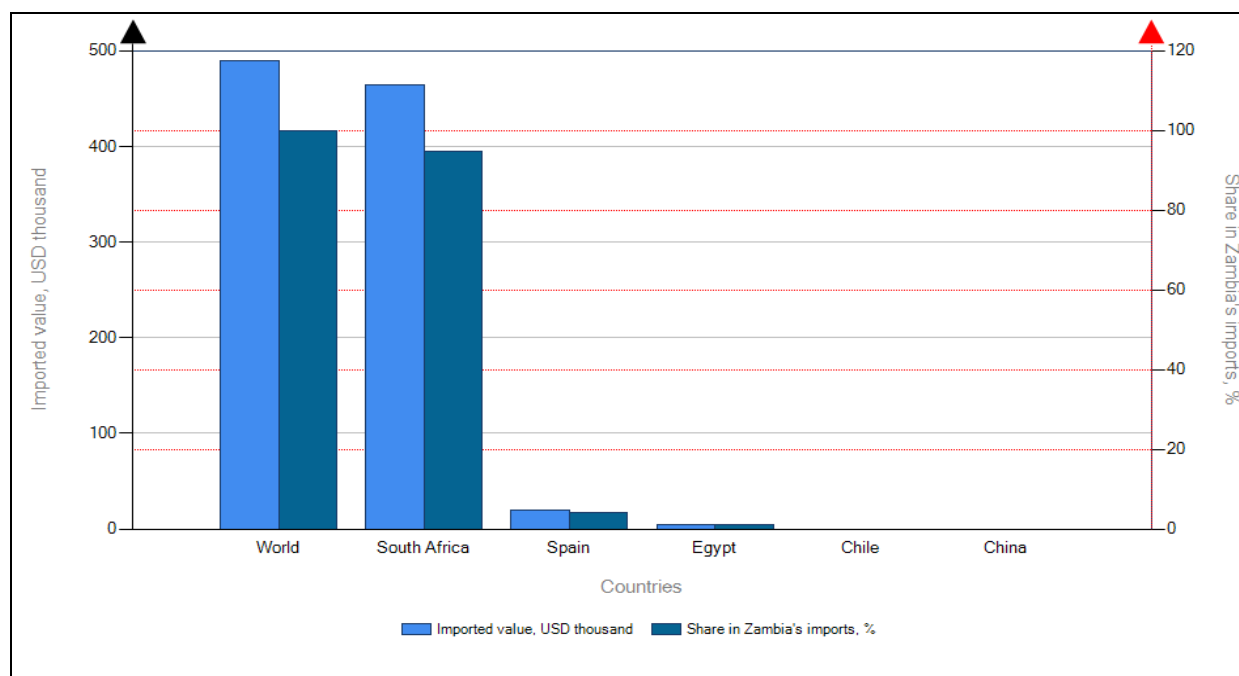


Figure 45: Suppliers of *fresh grapes* (HS 080610) imported by Zambia in 2012

Source: ITC (2013)

South Africa remains Zambia's main trade partner of fresh grapes. Zambia's imports from South Africa had been fluctuated slightly from 2001 to 2007. Zambia's imports of fresh grapes from South Africa increased gradually from 2007 to 2012. Zambia's annual import growth from South Africa over the five years from 2008 to 2012 was 14% (ITC, 2013).



Figure 46: Zambia's imports of *fresh grapes* (HS 080610) from 2001 to 2012

Source: ITC (2013)

4.4.5.1 Zambia applied tariff for fresh grapes (HS 080610)

South Africa has tariff advantage in Zambia for *fresh grapes* (HS 080610) compared to Spain and Chile. Zambia applies a preferential tariff for South Africa as well as for Egypt of 0.0%. Other competitors i.e. Spain and Chile have no tariff advantage and face an applied tariff of 25.0% and they all fall in the MFN regime.

Table 54: Tariff faced and tariff advantage in Zambia for *fresh grapes* (HS 080610)

| | Market share in 2012 (%) | Tariffs faced | Trade Regime | Tariff advantage for South Africa (yes/no) |
|---|---------------------------------|-------------------------------------|---|---|
| South Africa | 94.90% | 0% | Preferential tariff for South Africa | yes |
| South Africa's main competitors in target market | Market share in 2012 (%) | Tariffs faced by competitors | Trade Regime | Tariff advantage for South Africa (yes/no) |
| Spain | 4.10% | 25% | MFN duties (Applied) | no |
| Egypt | 1.00% | 0% | Preferential tariff for COMESA country members of the FTA | yes |
| Chile | none | 25% | MFN duties (Applied) | no |

Source: Compiled with the ITC (2013) data

Spain and Chile have more or less the same level of Global Competitiveness. It means they are all ahead of South Africa in terms productivity. Spanish and Chilean institutions and infrastructure are ahead those in South Africa, but the difference between Chile and South Africa is very small. Egypt is ranked 107th in the Global Competitiveness Index, it is not very competitive in terms of productivity compared with its competitors.

Table 55: Global Competitiveness Index 2012-2013 for exporters of *fresh grapes* (HS 080610) to Zambia

| Pillars | Spain | | Egypt | | Chile | | South Africa | |
|---|-------------|---------|-------------|---------|-------------|---------|--------------|---------|
| | Score (1-7) | Ranking | Score (1-7) | Ranking | Score (1-7) | Ranking | Score (1-7) | Ranking |
| 1 Institutions | 4.2 | 48 | 3.6 | 96 | 5 | 28 | 4.4 | 43 |
| 2 Infrastructure | 5.9 | 10 | 3.6 | 83 | 4.6 | 45 | 4.4 | 63 |
| 3 Macroeconomic environment | 4.2 | 104 | 3.1 | 138 | 6.2 | 14 | 4.1 | 69 |
| 4 Health and primary education | 6.1 | 36 | 5.3 | 94 | 5.6 | 74 | 4.6 | 132 |
| 5 Higher education and training | 5 | 29 | 3.3 | 109 | 4.7 | 46 | 3.9 | 84 |
| 6 Goods market efficiency | 4.4 | 55 | 3.8 | 125 | 4.7 | 30 | 4 | 32 |
| 7 Labor market efficiency | 4 | 108 | 3.1 | 142 | 4.7 | 34 | 4.7 | 113 |
| 8 Financial market development | 3.9 | 82 | 3.7 | 102 | 4.7 | 28 | 3.9 | 3 |
| 9 Technological readiness | 5.3 | 26 | 3.4 | 91 | 4.5 | 44 | 5.7 | 62 |
| 10 Market size | 5.5 | 14 | 4.8 | 29 | 4.4 | 42 | 4 | 25 |
| 11 Business sophistication | 4.5 | 32 | 3.8 | 83 | 4.2 | 48 | 4.8 | 38 |
| 12 Innovation | 3.8 | 35 | 2.8 | 109 | 3.5 | 44 | 4.3 | 42 |
| Global index & rank in the world | 4.6 | 36 | 3.7 | 107 | 4.6 | 33 | 3.5 | 52 |

Source: Compiled with Schwab (2012) data on the Global Competitiveness Report

4.4.6 South Africa trade performance in Zambia for *soya beans* (HS 120100)

Soya beans: South Africa is again by far the main trade partner for Zambia in *soya beans* (HS 120100). In 2012 Zambia imported US\$ 230 thousand of soya beans from South Africa. This amount accounted for 88% of Zambia imports of soya beans from the world. Malawi, China and Argentina compete at very small scale in Zambia's soya beans imports market. In 2012 Zambia's imports of soya beans from Malawi was 11% and from China less than 1% out of Zambia's total world import of soya beans (ITC, 2013).

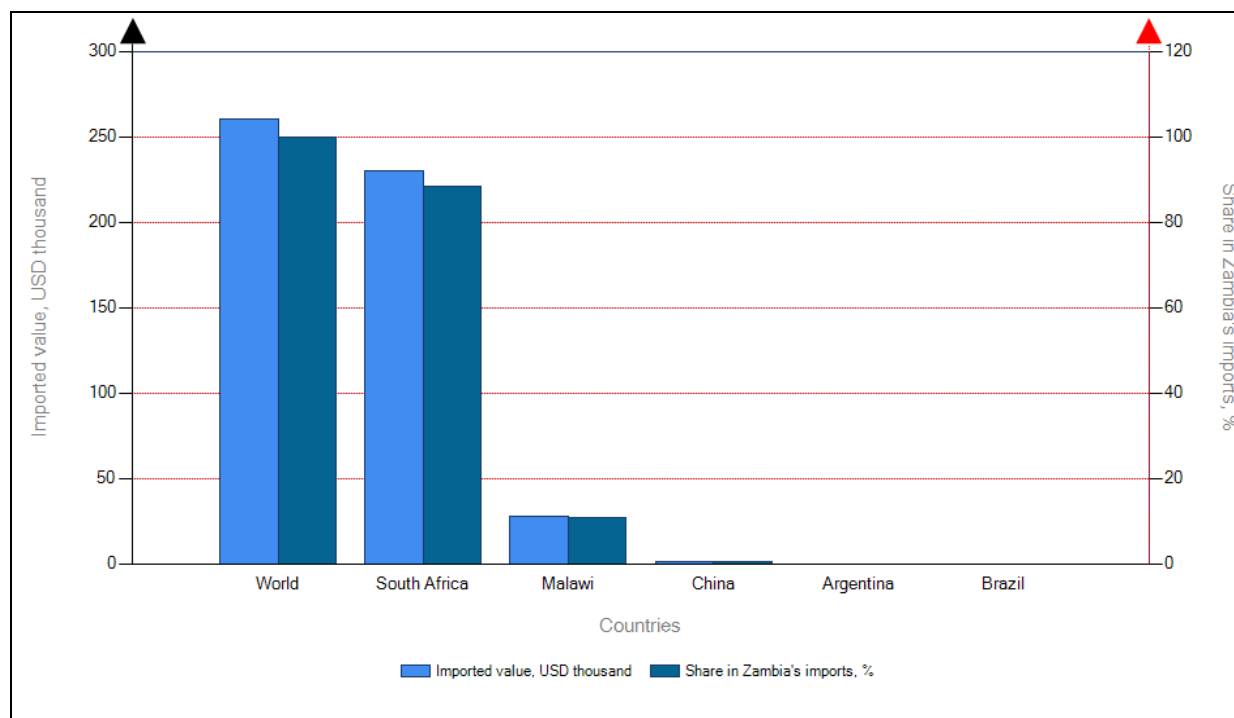


Figure 47: Zambia's world imports *soya beans* (HS 120100) in 2012

Source: ITC (2013)

4.4.6.1 Zambia applied tariff for *soya beans* (HS 120100)

South Africa has a tariff advantage in Zambia for *soya beans* (HS 120100) compared to China and Argentina. Zambia applies a preferential tariff of 0% for South Africa and Malawi. Zambia follows two trade regimes for Malawi: a preferential tariff for SADC countries and a preferential tariff for COMESA countries. China and Argentina both fall in the MFN trade regime and face 15% applied tariff and they export almost no *soya beans* (HS 120100) to Zambia.

Table 56: Tariff faced and tariff advantage in Zambia for *soya beans* (HS 120100)

| | Market share in 2012 (%) | Tariffs faced | Trade Regime | Tariff advantage for South Africa (yes/no) |
|---|---------------------------------|-------------------------------------|--|---|
| South Africa | 88.50% | 0% | Preferential tariff for South Africa | yes |
| South Africa's main competitors in target market | Market share in 2012 (%) | Tariffs faced by competitors | Trade Regime | Tariff advantage for South Africa (yes/no) |
| Malawi | 10.80% | 0% | Preferential tariff for SADC countries | yes |
| | | 0% | Preferential tariff for COMESA country members | |
| China | 0.40% | 15% | MFN duties (Applied) | no |
| Argentina | none | 15% | MFN duties (Applied) | no |

Source: Compiled with the ITC (2013) data

In the sector of *soya beans* (HS 120100) imported by Zambia, South Africa's main competitors in Zambia are by far behind in terms Global Competitiveness Index, except for China that is very far above South Africa. China is ranked 29th and South Africa is ranked 52nd. However China is not competitive in terms of exports of *soya beans* (HS 120100) to Zambia. As indicated above, China's share in Zambia's imports soya beans (HS 120100) is very low at 0.4% of Zambia's total imports from the world of this product. Malawi is ranked 129th. In the sector of health and primary education all South Africa's main competitors are ahead of South Africa.

Table 57: Global Competitiveness Index 2012-2013 for exporters of *soya beans* (HS 120100) to Zambia

| Pillars | Malawi | | China | | Argentina | | South Africa | |
|---|-------------|---------|-------------|---------|-------------|---------|--------------|---------|
| | Score (1-7) | Ranking | Score (1-7) | Ranking | Score (1-7) | Ranking | Score (1-7) | Ranking |
| 1 Institutions | 3.8 | 76 | 4.2 | 50 | 2.8 | 138 | 4.4 | 43 |
| 2 Infrastructure | 2.2 | 135 | 4.5 | 48 | 3.6 | 86 | 4.4 | 63 |
| 3 Macroeconomic environment | 3.3 | 136 | 6.2 | 11 | 4.3 | 94 | 4.1 | 69 |
| 4 Health and primary education | 4.3 | 124 | 6.1 | 35 | 5.8 | 59 | 4.6 | 132 |
| 5 Higher education and training | 2.8 | 129 | 4.3 | 62 | 4.6 | 53 | 3.9 | 84 |
| 6 Goods market efficiency | 3.9 | 112 | 4.3 | 59 | 3.2 | 140 | 4 | 32 |
| 7 Labor market efficiency | 4.6 | 43 | 4.6 | 41 | 3.3 | 140 | 4.7 | 113 |
| 8 Financial market development | 4 | 75 | 4.3 | 54 | 3.2 | 131 | 3.9 | 3 |
| 9 Technological readiness | 2.5 | 134 | 3.5 | 88 | 3.8 | 67 | 5.7 | 62 |
| 10 Market size | 2.4 | 123 | 6.8 | 2 | 4.9 | 23 | 4 | 25 |
| 11 Business sophistication | 3.4 | 115 | 4.3 | 45 | 3.7 | 89 | 4.8 | 38 |
| 12 Innovation | 2.9 | 99 | 3.8 | 33 | 3 | 91 | 4.3 | 42 |
| Global index & rank in the world | 3.4 | 129 | 4.8 | 29 | 3.9 | 94 | 3.5 | 52 |

Source: Compiled with Schwab (2012) data on the Global Competitiveness Report

4.5 Summary and conclusions

SADC countries' national economies differ from one another; however the general trends of GDP per capita remains positive with different magnitudes. Political environments are quite stable in the markets or selected countries. Some moderate problems in a country like Mozambique have to be tackled. It can be expected that Angola's current president's succession could be problematic. This could be seen as an uncertainty for business stability and/or growth.

South Africa does not face major market access problems in the SADC countries both in terms customs duties and non-tariff barriers especially regarding the SPS measures because it is the only country in Sub-Saharan Africa with internationally recognised laboratory equipment with required standards. For the selected products, South Africa has the greatest tariff advantage compared to its main competitors. It has a preferential tariff for SADC

countries in Mauritius for *wheat or meslin flour* (HS 110100) and pays a tariff of 9% versus its main competitors Turkey, India and New Zealand that fall in the MFN duties of 15%. Yet South Africa exports of *wheat or meslin flour* (HS 110100) to Mauritius is almost non-existent. It exports to Zimbabwe at a tariff of 10%, to Zambia at 0% and to Mozambique at 15%.

For *fresh grapes* (HS 080610) to Zambia, South Africa dominates the market by roughly 95%. Zambia has a preferential tariff for South Africa of 0%. Egypt also faces a 0% tariff and faces the preferential tariff for COMESA countries. Being South Africa's second main competitor in Zambia for *fresh grapes* (HS 080610), Spain faces 25% on customs duties for this product and falls in the MFN tariff regime.

Zambia has a preferential tariff for South Africa of 0% for *soya beans* (HS 120100). Malawi also has 0% on customs duty in Zambia for *soya beans* (HS 120100) and falls in two trade regimes namely: preferential tariff for SADC countries and/or preferential tariff for COMESA countries. Here again South Africa dominates the market by far (i.e. with roughly 88% of Zambia's imports from the world in 2012).

In Mozambique for *wine in containers of ≤2l* (HS 220421), South Africa is the only country with a tariff advantage of 0% as preferential tariff for South Africa. All other main competitors face 20% customs duties and fall in the MFN duty applied tariff as trade regime. Portugal dominates the market with roughly 68% of Mozambique imports from the world, while Mozambique's imports from South Africa of this product represented only 4.6% in 2011.

All selected markets are South Africa's important trade partners with other exporting countries competing in the same markets. To name some, Brazil, Portugal, India and France appear among the most competing countries in the markets and they all score well in the Global Competitiveness Indices in different sectors especially in technological readiness, in infrastructure, in innovation and in market size.

Chapter 5: Summary, conclusions and recommendations

This study aimed at providing South Africa's exporters with new and/or greater market opportunities in SADC countries and to give information on market characteristics on each selected market. South Africa has shown a greater willingness to effectively penetrate the international market since 1994. The growth of South Africa's exports are a subsequence of different factors such as: trade liberalisation, improving infrastructure, systematic research and developments for new markets, strengthening existing protocols, signing new protocols as a result of good diplomatic relations, etc. This research embraces the process that has started in years gone by.

The ITC market research method is based on historical trade data, therefore calculations are performed only based on available data. Thus, if a product or a country does not have data, it is automatically eliminated. That is why one can notice a quasi-absence of SACU countries in the Market Attractiveness Index. One reason why SACU countries lack trade data may be the fact that goods are traded free of tariffs and to some extent without quotas in the free zone. It may also be due to confidentiality.

For product selection, composite indices have been computed. Priorities of selection have been made for the first ranked products in the Export Potential Index. Yet, because of the difficulties to alter production to produce more products that are in greater demand and seasonality, products were also selected at different levels of the Export Potential Index ranking. That is why one can notice the presence of products selected that are not in the first fifteen ranked products, namely: *frozen bovine cuts* (HS 020220) (ranks 252nd in the Export Potential Index), *frozen bovine carcasses and half carcasses* (HS 020210) (ranks 381st in the Export Potential Index) and *sweetened milk powder* (HS 040229) (ranks 315th in the Export Potential Index). Trade Map data like any other trade data show some level of inconsistency. That is why countries such as those ranking 2nd and 3rd in the MAI are not necessarily unattractive for the chosen sector. When diversifying target markets, one could choose some of these countries because these countries might also have a very high Market Attractiveness Index. In this study only the top ranking country in the MAI for each product was discussed in more detail.

Mauritius ranked first as the target market for four products namely: *maize* (HS 100590), *sweetened milk powder* (HS 040229), *raw cane sugar* (HS 170111) and *wheat or meslin flour*

(HS 110100). Argentina dominates by far the market of *maize* (HS 100590) with roughly 75% of market share in 2012. Australia and New Zealand are Mauritius' main trade partners for *sweetened milk powder* (HS 040229). Their market shares were more than 88% in 2011. France also competes remarkably well. Its share in Mauritius imports of *sweetened milk powder* (HS 040229) was just above 8% in 2011. South Africa's exports of this product to Mauritius are almost non-existent. Its exports in 2011 went to Zambia (53.7% share in SA's exports), Mozambique (19.1% share in SA's exports), Malawi (12.4% share in SA exports), Zimbabwe (9.8% share in SA's exports) and the DR Congo (2% share in SA's exports). It is evident that more of South Africa's exports of *sweetened milk powder* (HS 040229) go to SADC countries, but not necessarily to Mauritius. It is important to notice that there is no tariff advantage in Mauritius for any main competitors for *sweetened milk powder* (HS 040229). They all face a 0% customs duty. South Africa also faces a 0% customs duty, but is losing notable market share of *sweetened milk powder* (HS 040229) in Mauritius. For *raw cane sugar* (HS 170111), Brazil is the Mauritius' main trade partner with roughly 100% market share. Mauritius does not have a preferential tariff for any main competitor for *raw cane sugar* (HS 170111), because they all fall in the MFN tariff regime. Mauritius' imports of *wheat or meslin flour* (HS 110100) are dominated by Turkey with roughly 83% of market share, India with 11.5% and New Zealand with 4.2% in 2012. South Africa's exports of this product to Mauritius are very small. Nevertheless, it has a tariff advantage over the Mauritius' main trade partners for *wheat or meslin flour* (HS 110100). It faces a 9% customs duty whereas other competitors face 15%. South Africa exports *wheat or meslin flour* (HS 110100) to: Zimbabwe (89.6% share in SA's exports) at 10% tariff rate, Zambia (6.9%) at 0% tariff rate, Mozambique (1.4%) at 15% tariff rate.

Angola is the most attractive market in SADC for seven of the fourteen selected export product. South Africa is by far the main exporter of *fresh apples* (HS 080810) to Angola. Portugal and Argentina are South Africa's main competitors. For *fresh or dried oranges* (HS 080510) South Africa is Angola's main trade partner with roughly 65.6% of market share. There is no tariff advantage in Angola for *fresh or dried oranges* (HS 080510). South Africa and South Africa's main competitors (i.e. Portugal, Egypt and Argentina) in Angola all face a 10% customs duty and follow the MFN tariff regime. *Sparkling wine* (HS 220410) in Angola is also mainly supplied by South Africa competing mainly with Portugal. For *wine in containers of >2l* (HS 220429) or bulk wine, Angola imports this wine mainly from Portugal and Spain, whereas South Africa has a very small market share for this product. *Refined*

sugar (HS 170199) is mainly imported from Brazil. *Frozen bovine cuts* (HS 020220) are also mainly exported to Angola by Brazil. All main South Africa's competitors in Angola market for selected products are non-African exporting countries. Finally, for *frozen bovine carcasses and half carcasses* (HS 020210), Portugal supplied almost 100% of Angola's imports of *frozen bovine carcasses and half carcasses* (HS 020210) in 2012. Angola applies the MFN tariff regime to all its trade partners for *frozen bovine carcasses and half carcasses* (HS 020210).

Mozambique was identified as the main export destination for *wine in containers of <=2l* (HS 220421) or bottled wine. Portugal dominates the market with more than 68% of market share, followed by Chile with 21.3% and then South Africa with 4.6%. Although Portugal is the main exporting country of *wine in containers of <=2l* (HS 220421) to Mozambique, South Africa is the only country with a tariff advantage. Mozambique has a preferential tariff for South Africa of 0%. All other competitors including Portugal face 20% and follow the MFN tariff regime. South Africa exported most of its bottled wine overseas to the UK (19.2% share in SA's exports), the Netherlands (12%), Germany (11.9%), Canada (7.1%), the USA (7%), Sweden (6.6%) and China (4%) in 2011, whereas Mozambique imports most of its *wine in containers of <=2l* (HS 220421) from overseas countries such as Portugal, Chile and Spain.

Zambia was ranked as the top export destination in the MAI for two products, namely *fresh grapes* (HS 080610) and *soya beans* (HS 120100). South Africa is Zambia's main trade partner of *fresh grapes* (HS 080610). In 2012 95% of Zambia's imports of fresh grapes came from South Africa. Spain and Egypt compete on a very small scale in Zambia's import market of fresh grapes. Zambia has a preferential tariff for South Africa of 0% for fresh grapes. Spain faces 25% on customs duty and follows the MFN tariff regime. It supplied 4.1% of Zambia's imports from the world in 2012 for this product. Egypt also has a tariff advantage in Zambia for fresh grapes, facing a 0% customs duty and it follows the preferential tariff for COMESA country members of the FTA. But its share in Zambia's imports is very small. In 2012 it was roughly 1%. South Africa is therefore using efficiently both distance advantage and market access advantage for fresh grapes in Zambia. *Soya beans* (HS 120100) are also mostly imported from South Africa. In 2012 88.5% of Zambia's imports of *soya beans* (HS 120100) originated from South Africa. Malawi's share was 10%. Zambia has a preferential tariff for South Africa of 0%. It follows two trade regimes for

Malawi for *soya beans* (HS 120100) at 0% customs duty namely: the preferential tariff for SADC countries and the preferential tariff for COMESA countries.

For all selected products, South Africa's main competitors in SADC are non-African countries. South Africa, compared with its competitors that export the same selected products to SADC countries, has advantages of proximity because its main competitors are mostly located overseas (not on the African continent). From the lists of main competitors that were identified for each of the selected products, it is only the following countries that are African countries: Namibia in the market of *fresh apples* (HS 080810) in Angola, Egypt in the market of *fresh grapes* (HS 080610) in Zambia, Malawi in the market of *soya beans* (HS 120100) in Zambia as well as Swaziland in the market of *wine in containers <=2l* (HS 220421) in Mozambique. Apart from the advantage of proximity there is also the advantage of agreements. Because South Africa is a signatory to the SADC protocol, it has advantages because the protocol is in progress of free trade agreement. In addition, South Africa has a preferential tariff for a number of products: in Mauritius for *wheat or meslin flour* (HS 110100), in Mozambique for *wine in containers of <=2l* (HS 220421), in Zambia for *fresh grapes* (HS 080610) and for *soya beans* (HS 120100). While all other competitors face the MFN duties or the general applied tariffs for the selected products apart from Egypt for *fresh grapes* (HS 080610) in Zambia and Malawi for *soya beans* (HS 120100) in Zambia.

South Africa should be the first country to perceive and use opportunities in SADC countries as well as in all other sub Saharan African countries, because these countries are attractive when one takes into account population growth and growth in income per capita.

South Africa should maintain or increase market share in markets where it is already present. Losing market share in a growing economy is to be avoided especially when the demand of the product is increasing in the market where South Africa has the biggest market share. The fresh apple market in Angola is a good example of this. Increasing production of luxury products such as meats of bovine animals that are increasingly in demand in South Africa and in SADC would be very beneficial for South Africa instead of losing market share as in the case of *frozen bovine cuts* (HS 020220) in Angola.

This research has identified market opportunities for selected agricultural and food products of South Africa. One should bear in mind that there are no limitations for further screening of markets. Countries that appear in the MAI are not all SADC countries. Even if in this research consideration has been given to top ranking target markets, other high ranking

countries might also be of importance in terms of attractiveness. Some overseas countries export the same products to SADC countries in greater value than what South Africa exports to the same SADC countries, while South Africa exports the same products to non-SADC countries. This is not to say that one must abandon the market overseas to export to SADC, but one should perceive opportunities in close proximity and develop strategies to increase exports for better competition.

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